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# FUNDAMENTALS OF **IFRS17** & THE IMPLEMENTATION ROADMAP

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A person in a dark suit and tie is holding a tablet computer. The background is a dark blue gradient. Overlaid on the image is a semi-transparent umbrella icon and a family icon (a man, a woman, and a child).

# IFRS-17 for Life Insurers

Assessment of Impact on Actuarial, Accounting and IT Areas

# IFRS-17 and Life Insurance Companies

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Life insurance companies are one of the participants in the insurance sector and will be affected by the implementation of IFRS-17

Generally, life insurance contracts are longer in duration than the non-life insurance contracts

Life insurance business can be protection only or protection and savings with the latter being more popular these days

The application of a new standard does not change the profitability of the life insurance contracts, it just affects the way it is measured, presented and earned

Generally, the previous measurement regimes have also aimed to achieve correct measurement of liabilities and profitability

IFRS-17 is designed to improve and supplement these measurement regimes

# Life Insurance Premium - Components

A life insurance premium typically consists of four key elements		Application when applying IFRS 17
1. Mortality and morbidity charge	Charges for the benefits	✓ Included
2. Expenses recovery	Cost incurred to issue and administer	✓ Included
3. Deposit	Repays to the policyholder regardless of insured event occurs	x Excluded
4. Profit for service and bearing risk	Amount expects to earn from providing services including a risk premium	✓ Included
✓ Included in insurance revenue when applying IFRS 17		
x Excluded in insurance revenue when applying IFRS 17		

# IFRS-17 vs Embedded Value – High Level

Embedded Value (EV) Reporting	IFRS 17 Reporting (General Model)
<p>Present Value of Future Cash Flows (PVFCF) of existing insurance contracts;</p> <p>PVFCF would differ because of differences in the underlying measurement, use of discount rates and the manner of reflecting risks</p>	<p>Present Value of Future Cash Flows + Risk Margin (explicit) + Contractual Service Margin (CSM)</p>
<p>Both reflects a current estimate of the cash flows</p>	
<p>The expected profit is recognized in the value of the business at inception.</p>	<p>The present value of future profits corresponds broadly to the CSM or unearned profit; no profit at inception. CSM becomes a liability for the Company.</p>
<p>There is no systematic release of profits, other than as determined by the passage of time.</p>	<p>Systematic release of CSM in the income for the period through the coverage period</p>

# Overview of the General Measurement Model (GMM) and Variable Fee Approach (VFA)

# General Measurement Model (GMM)

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For life insurers, major liability is the Liability for Remaining Coverage (LRC)

Under GMM, this liability is the sum of PV of Future Cash Flows (PVFCF), Risk Adjustment (RA) and CSM

PVFCF is akin to the mathematical reserves generally held in IFRS-4 but with the removal implicit provisions in the assumptions

RA is a new item which is compensation for bearing non-financial risk

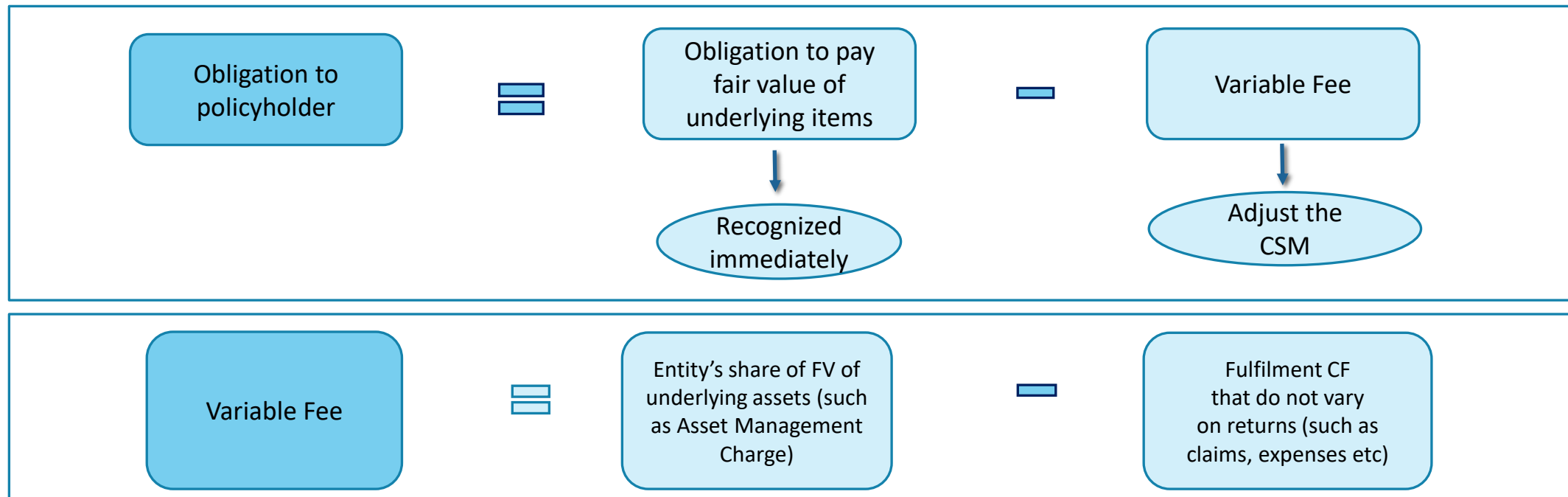
CSM is a new item that represents the unearned profit of the company

Liability for Incurred Claims (LIC) is generally minimal for life insurers unless there are annuities

LIC measurement is the same under all measurement models and it equals the sum of PV(Loss Reserves) and Risk Adjustment

# Variable Fee Approach

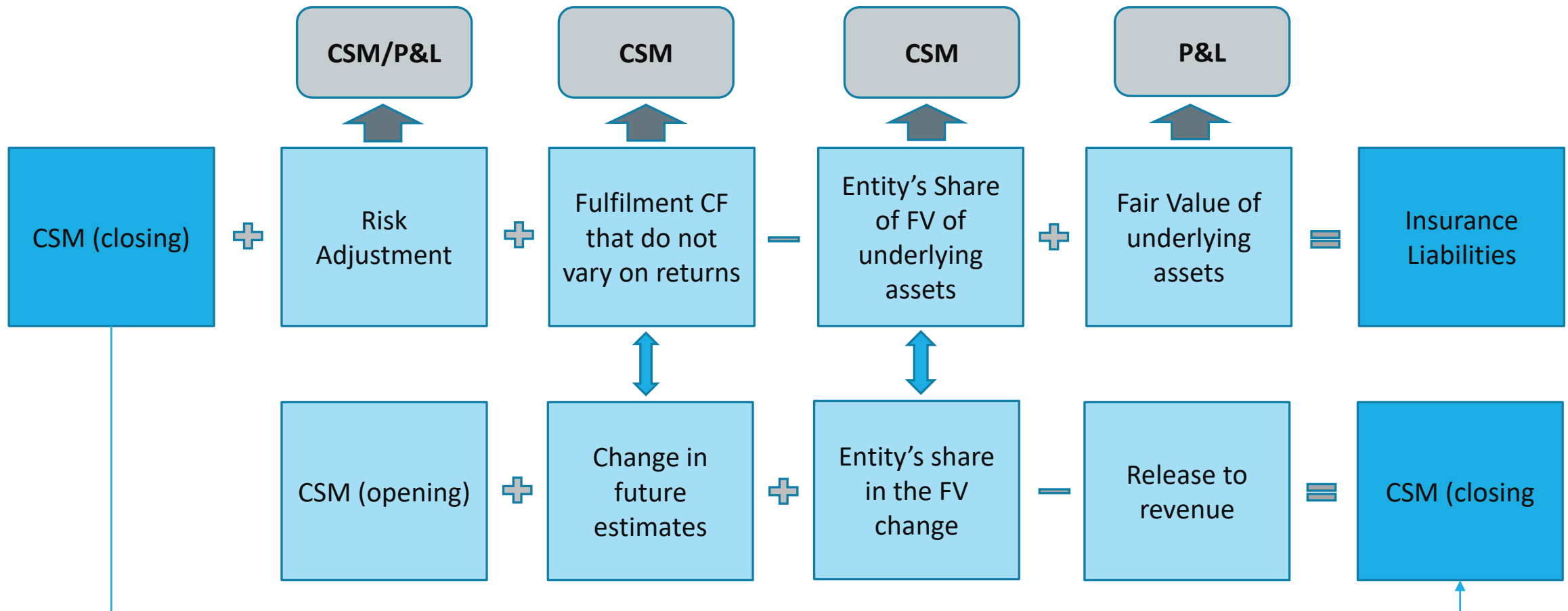
- It follows the General Measurement Model with few modifications and it also reduces the volatility of net results
- The approach considers the variable fee associated with direct participating contracts (such as Unit Linked or With profits contracts)



# VFA vs GMM

Area	GMM	VFA
Fulfilment cash flows	PV of Future Cash Flows + Risk Adjustment	Account value+ Variable Fee + Risk Adjustment
Accreting interest on the CSM	Interest accreted, the related financial cost recognized in the income statement	No interest accretion on the CSM
Time value of money, variances in estimates of financial variables	Financial cost/income recognized in the income statement	<ol style="list-style-type: none"> <li>1. Related to the policyholders' account (B104a) : financial cost/income recognized in the income statement</li> <li>2. Not related to the policyholders' account (B104b) : allocated to the CSM except it is subject to a qualified hedging</li> </ol>
Variances in estimates of non-financial variables	Measured at locked-in discount rates and accounted to the CSM	Measured at current discount rates and accounted to the CSM
Coverage period i.e. the period over with the CSM is amortized	Insurance services	Insurance and investment services

# Variable Fee Approach – Subsequent Measurement



# VFA – Direct and Indirect Approach

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An alternate approach to measure the VFA LRC is the direct approach

Here, the FV of underlying assets and the Variable Fee are not segregated to calculate the liability

Instead, the  $LRC = PVFCF + RA + CSM$  where the PVFCF is calculated in a similar manner as GMM

Here, the overall premium (including the deposit component) is used in development of liability and the investment claims are also included

The CSM measurement is modified to include the investment income and the insurance finance expenses incurred on the underlying cash flows

Both the methods yield the same results in terms of liabilities

The following example uses the direct approach to liability measurement

# Variable Fee Approach Unit Linked

Actual equals expected investment income

**Single Premium Unit Linked (Actual Equals Expected Investment Income)**

Assumptions		
Benefit Term	3	
Single Premium	15,000	
Number of Policies	1	
Sum Assured	17,000	
Annual Return	Expected	Actual
<i>First Year</i>	10%	10%
<i>Second Year</i>	10%	10%
<i>Third Year</i>	10%	10%
Discount Rate	10.00%	
Risk Adjustment	-	
Acquisition Cost	0%	
Expenses		
<i>First Year</i>		
<i>Second Year</i>		
<i>Third Year</i>		
Charge - % of AV		
<i>First Year</i>	2%	
<i>Second Year</i>	2%	
<i>Third Year</i>	2%	
Surviving Policies		
<i>First Year</i>	100	
<i>Second Year</i>	99	
<i>Third Year</i>	98	
Charge - % of Premiu	5%	

Cash Flows																
Account Value Projections (not adjusted for continuance)																
Year	Premium	Acquisition Expense	AV BOY	Invested	Investment Income	Charge	AV EOY	Sum at Risk (EOY)	Death and Maturity	Inflows	Outflows	Discount	Discounted Inflows	Discounted Outflows	Discounted Net Flow	PV Net Cashflows EOY
0	15,000	-	-	14,250	-	-	14,250	2,750	-	15,000	-	1.000	15,000	-	(15,000)	13,439
1	-	-	14,250	-	1,425	314	15,362	1,639	170	-	170	0.909	-	155	155	14,613
2	-	-	15,362	-	1,536	338	16,560	440	170	-	170	0.826	-	140	140	15,904
3	-	-	16,560	-	1,656	364	17,851	-	17,494	-	17,494	0.751	-	13,144	13,144	-

**Single Premium Unit Linked (Actual Equals Expected Investment Income)**

This example illustrates :

- how an entity measures a single premium unit linked insurance contract where the actual investment income equals to expected
- the Insurance contract is measured using VFA.
- it demonstrates the treatment of discounting on expected cash outflows.
- it demonstrates the treatment of interest accretion on CSM and how it released to PnL

**Assumptions**

- |   |         |   |
|---|---------|---|
| Coverage Period                                     | 3 years | -- All premiums and acquisition cost pays immediately after recognition.                  |
| Premium received immediately at inception of policy | 15,000  | -- This illustration is presented using IFRS 17 standards.                                |
|   |         | -- It is without reinsurance impact.  |
|   |         | -- Risk adjustment, interest accretion and all other amounts are ignored, for simplicity. |
|   |         | -- All amounts are denominated in currency units (CU);                                    |

**IFRS 17**

<b>Contractual Service Margin</b>				
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
PV Expected Future Cash Inflows	15,000	-	-	-
PV Expected Future Cash Outflows	13,439	14,613	15,904	-
<b>PV Expected Future Net Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Impact of Discounting	4,396	3,052	1,590	-
Non-Financial Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
<b>Contractual Service Margin:</b>				
Opening Balance	-	1,561	1,089	572
New Contracts	1,561	-	-	-
Investment Income	-	1,425	1,521	1,623
Finance Expense	-	1,344	1,461	1,590
Value of Insurer Share of underlying items	-	81	60	32
Transferred to P&L	-	553	577	604
<b>Closing Balance</b>	<b>1,561</b>	<b>1,089</b>	<b>572</b>	-

<b>Insurance Contract Liabilities - IFRS 17</b>				
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
PV Expected Future Cash Flows	(1,561)	14,613	15,904	-
Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Contractual Service Margin	1,561	1,089	572	-
<b>Liabilities for Future Years</b>	-	<b>15,702</b>	<b>16,475</b>	-
Claim Reserves	-	-	-	-
<b>Total Insurane Contract Liabilities</b>	-	<b>15,702</b>	<b>16,475</b>	-

<b>Profit &amp; Loss - IFRS 17</b>					
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Total</b>
Release in CSM	-	553	577	604	<b>1,734</b>
Change in Risk Adjustment	-	-	-	-	-
Expected Claims in Fulfilment Cashflows	-	16	4	-	<b>21</b>
Expected Expenses	-	-	-	-	-
Expected Acquisition Costs	-	-	-	-	-
<b>Total Insurance Revenue</b>	-	<b>569</b>	<b>582</b>	<b>604</b>	<b>1,755</b>
Actual Claims Incurred	-	16	4	-	<b>21</b>
Actual Expenses Incurred	-	-	-	-	-
Actual Acquisition Costs	-	-	-	-	-
<b>Total Insurance Service Expenses</b>	-	<b>16</b>	<b>4</b>	-	<b>21</b>
<b>Net Insurance Service Result</b>	-	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>
Insurance Finance Income	-	1,425	1,521	1,623	<b>4,569</b>
Insurance Finance Expenses	-	1,425	1,521	1,623	<b>4,569</b>
<b>Net Financial Results</b>	-	-	-	-	-
<b>Profit / (Loss)</b>	-	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>

**IFRS 4**

<b>Fair Value of Underlying Assets</b>				
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
Opening Balance	-	-	15,208	16,229
Premiums Invested	-	14,250	-	-
Investment Income	-	1,425	1,521	1,623
Annual Charge	-	314	335	357
Death Payments	-	154	166	179
Maturity Payments	-	-	-	17,316
<b>Closing</b>	-	<b>15,208</b>	<b>16,229</b>	-

<b>Insurance Contract Liabilities - IFRS 4</b>				
<b>Year</b>	<b>0 (EOY)</b>	<b>1 (EOY)</b>	<b>2 (EOY)</b>	<b>3 (EOY)</b>
Fair Value of Underlying Assets	14,250	15,208	16,229	-
<b>Liabilities for Future Years</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	-
Claims Reserves	-	-	-	-
<b>Total Insurance Contract Liabilities</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	-

<b>Profit &amp; Loss - IFRS 4</b>					
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Total</b>
Premiums Income	-	15,000	-	-	15,000
Investment Income	-	1,425	1,521	1,623	4,569
<b>Total Income</b>	-	<b>16,425</b>	<b>1,521</b>	<b>1,623</b>	<b>19,569</b>
Claims Incurred	-	170	170	17,494	17,834
Expenses	-	-	-	-	-
Acquisition Costs	-	-	-	-	-
<b>Total Expenses</b>	-	<b>170</b>	<b>170</b>	<b>17,494</b>	<b>17,834</b>
Change in Liabilities for Future Years	-	15,208	1,021	(16,229)	-
<b>Profit / (Loss)</b>	-	<b>1,047</b>	<b>330</b>	<b>357</b>	<b>1,734</b>

**Unit Link - VFA Illustration  
General Journal Entries  
for the year Jan 01, to Dec 31, 20Y0**

<u>S#</u>	<u>Date</u>	<u>Code</u>	<u>Account Title (IFRS 17)</u>	<u>Nature of A/c</u>	<u>Dr / Cr</u>	<u>Amount</u>	<u>Narration</u>
1	01/01/Y0	2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	Dr	4,396	Discount on cash outflow
		2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Cr	2,834	
		2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	Cr	1,561	CSM booked
2	01/01/Y0	1101001	Bank	Asset	Dr	15,000	Booked receipt of premium
		2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Cr	15,000	

**Unit Link - VFA Illustration  
Trial Balance  
for the year Jan 01, to Dec 31, 20Y0**

<u>Account Code</u>	<u>Account Title (IFRS 17)</u>	<u>Nature of A/c</u>	<u>Opening Balance</u>		<u>Period Transactions</u>		<u>Closing Balance</u>		<u>Balance Sheet</u>		<u>PnL</u>	
			<u>Dr</u>	<u>Cr</u>	<u>Dr</u>	<u>Cr</u>	<u>Dr</u>	<u>Cr</u>	<u>Dr</u>	<u>Cr</u>	<u>Dr</u>	<u>Cr</u>
1101001	Bank	Asset	-	-	15,000	-	15,000	-	15,000	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liab	Liability	-	-	-	17,834	-	17,834	-	17,834	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	-	-	4,396	-	4,396	-	4,396	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Servic	Liability	-	-	-	1,561	-	1,561	-	1,561	-	-
	<b>Total</b>		-	-	<b>19,396</b>	<b>19,396</b>	<b>19,396</b>	<b>19,396</b>	<b>19,396</b>	<b>19,396</b>	-	-

**Unit Link - VFA Illustration**  
**Statement of Profit or loss and other Comprehensive Income**  
**for the year Jan 01, to Dec 31, 20Y0**

		<u>Reference</u>
<b>Insurance Revenue</b>	-	IAS 1.46, IAS 1.45
<i>Expected Claims</i>	-	IAS 1.82(a)(ii), IFRS 17.83
<i>Contractual Service Margin - Released</i>	-	
<b>Insurance Service Expenses</b>	-	AS 1.82(ab), IFRS 17.84
<i>Claim Incurred</i>	-	
<i>Amortization of Insurance Acquisition Cash Flows</i>	-	
<b>Insurance services result before reinsurance contracts held</b>	-	
Allocation of reinsurance premiums		IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-	IFRS 17.86
<b>Net expense from reinsurance contracts held</b>	-	IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	-	IFRS 17.80(a)
<b>Investment Income</b>		
Insurance Finance Income	-	IFRS 7.20(a)(i)
Insurance finance expenses for insurance contracts issued	-	IAS 1.82(bb), IFRS 17.87
<i>Share of Fair value changes</i>	-	
<i>Interest Accretion on Fulfilment Cash Flows</i>	-	
Reinsurance finance income for reinsurance contracts held	-	IAS 1.82(bc), IFRS 17.82
<b>Net Insurance financial result</b>	-	
Other Income and expenses	-	
<b>Profit before tax</b>	-	

**Unit Link - VFA Illustration**  
**Statement of Financial Position**  
**As at Dec 31,**

		<u>Reference</u>
<b>Assets</b>		
Cash and cash equivalents	15,000	IAS 1.54(i)
Investment Income Receivable	-	
Debt instruments at fair value through other comprehensive income		IFRS 7.8(a)
Debt instruments at amortized cost		IFRS 7.8(h)
Insurance contract assets		IFRS 17.78(a)
Reinsurance contract assets	-	IFRS 17.78(c)
<b>Total assets</b>	<b>15,000</b>	
<b>Liabilities</b>		
Current tax liabilities		
Insurance contract liabilities	15,000	IFRS 17.78(b)
<i>CSM</i>	1,561	
<i>Fulfilment Cash Flow</i>	13,439	
<i>Risk Adjustment</i>	-	
<i>Liability for Incurred Claims</i>	-	
Deferred tax liabilities		IAS 1.56, IAS 1.54(o)
Other payables		IAS 1.55
<b>Total liabilities</b>	<b>15,000</b>	
<b>Equity</b>		
Issued capital		IAS 1.54(r), IAS 1.78e
Retained earnings	-	IAS 1.54(r), IAS 1.78e
Fair value reserve		IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve		IAS 1.54(r),
<b>Total equity</b>	-	
<b>Total liabilities and equity</b>	<b>15,000</b>	

## IFRS 17

Contractual Service Margin				
Year	0	1	2	3
PV Expected Future Cash Inflows	15,000	-	-	-
PV Expected Future Cash Outflows	13,439	14,613	15,904	-
<b>PV Expected Future Net Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Impact of Discounting	4,396	3,052	1,590	-
Non-Financial Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
<b>Contractual Service Margin:</b>				
Opening Balance	-	1,561	1,089	572
New Contracts	1,561	-	-	-
Investment Income	-	1,425	1,521	1,623
Finance Expense	-	1,344	1,461	1,590
Value of Insurer Share of underlying items	-	81	60	32
Transferred to P&L	-	553	577	604
<b>Closing Balance</b>	<b>1,561</b>	<b>1,089</b>	<b>572</b>	-

Insurance Contract Liabilities - IFRS 17				
Year	0	1	2	3
PV Expected Future Cash Flows	(1,561)	14,613	15,904	-
Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Contractual Service Margin	1,561	1,089	572	-
<b>Liabilities for Future Years</b>	<b>-</b>	<b>15,702</b>	<b>16,475</b>	-
Claim Reserves	-	-	-	-
<b>Total Insurane Contract Liabilities</b>	<b>-</b>	<b>15,702</b>	<b>16,475</b>	-

Profit & Loss - IFRS 17					
Year	0	1	2	3	Total
Release in CSM	-	553	577	604	<b>1,734</b>
Change in Risk Adjustment	-	-	-	-	-
Expected Claims in Fulfilment Cashflows	-	16	4	-	<b>21</b>
Expected Expenses	-	-	-	-	-
Expected Acquisition Costs	-	-	-	-	-
<b>Total Insurance Revenue</b>	<b>-</b>	<b>569</b>	<b>582</b>	<b>604</b>	<b>1,755</b>
Actual Claims Incurred	-	16	4	-	<b>21</b>
Actual Expenses Incurred	-	-	-	-	-
Actual Acquisition Costs	-	-	-	-	-
<b>Total Insurance Service Expenses</b>	<b>-</b>	<b>16</b>	<b>4</b>	<b>-</b>	<b>21</b>
<b>Net Insurance Service Result</b>	<b>-</b>	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>
Insurance Finance Income	-	1,425	1,521	1,623	<b>4,569</b>
Insurance Finance Expenses	-	1,425	1,521	1,623	<b>4,569</b>
<b>Net Financial Results</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit / (Loss)</b>	<b>-</b>	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>

## IFRS 4

Fair Value of Underlying Assets				
Year	0	1	2	3
Opening Balance	-	-	15,208	16,229
Premiums Invested	-	14,250	-	-
Investment Income	-	1,425	1,521	1,623
Annual Charge	-	314	335	357
Death Payments	-	154	166	179
Maturity Payments	-	-	-	17,316
<b>Closing</b>	<b>-</b>	<b>15,208</b>	<b>16,229</b>	<b>-</b>

Insurance Contract Liabilities - IFRS 4				
Year	0 (EOY)	1 (EOY)	2 (EOY)	3 (EOY)
Fair Value of Underlying Assets	14,250	15,208	16,229	-
<b>Liabilities for Future Years</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	<b>-</b>
Claims Reserves	-	-	-	-
<b>Total Insurance Contract Liabilities</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	<b>-</b>

Profit & Loss - IFRS 4					
Year	0	1	2	3	Total
Premiums Income	-	15,000	-	-	15,000
Investment Income	-	1,425	1,521	1,623	4,569
<b>Total Income</b>	<b>-</b>	<b>16,425</b>	<b>1,521</b>	<b>1,623</b>	<b>19,569</b>
Claims Incurred	-	170	170	17,494	17,834
Expenses	-	-	-	-	-
Acquisition Costs	-	-	-	-	-
<b>Total Expenses</b>	<b>-</b>	<b>170</b>	<b>170</b>	<b>17,494</b>	<b>17,834</b>
Change in Liabilities for Future Years	-	15,208	1,021	(16,229)	-
<b>Profit / (Loss)</b>	<b>-</b>	<b>1,047</b>	<b>330</b>	<b>357</b>	<b>1,734</b>

**Unit Link - VFA Illustration  
General Journal Entries  
for the year Jan 01, to Dec 31, 20Y1**

<u>S#</u>	<u>Date</u>	<u>Code</u>	<u>Account Title (IFRS 17)</u>	<u>Nature of A/c</u>	<u>Dr / Cr</u>	<u>Amount</u>	<u>Narration</u>
1	1/1/20Y1	5101011Dr 2101027Cr	5101011 Insurance Finance Expense - Interest Accretion on Fulfilment Cash Flows 2101027 Insurance Contract Liability - Liability for Remaining Coverage - Discount	Expense Liability	Dr Cr	1,344 1,344	Unwinding of discount on fulfilment cash flows
2	1/1/20Y1	5101012Dr 2101028Cr	5101012 Insurance Finance Expense - Share of Fair Value Changes 2101028 Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Expense Liability	Dr Cr	81 81	Change in value of underlying asset
3	1/1/20Y1	2101028Dr 4501001Cr	2101028 Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin 4501001 Insurance Service Revenue - CSM Release	Liability Income	Dr Cr	553 553	CSM Released
4	1/1/20Y1	1101001Dr 4501003Cr	1101001 Bank 4501003 Insurance Finance Income - Investment Income	Asset Income	Dr Cr	1,425 1,425	Investment income received
5	1/1/20Y1	2101026Dr 4501002Cr	2101026 Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability 4501002 Insurance Service Revenue - Expected Claims - Income	Liability Income	Dr Cr	16 16	Expected claim booked
6	1/1/20Y1	5101002Dr 1101001Cr	5101002 Insurance Service Expense - Claim Incurred - Expense 1101001 Bank	Expense Asset	Dr Cr	16 16	Claim incurred & Paid
7	1/1/20Y1	2101026Dr 1101001Cr	2101026 Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability 1101001 Bank	Liability Asset	Dr Cr	154 154	Fund value paid

**Unit Link - VFA Illustration  
Trial Balance  
for the year Jan 01, to Dec 31, 20Y1**

Account Code	Account Title (IFRS 17)	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1101001	Bank	Asset	15,000	-	1,425	170	16,255	-	16,255	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	-	17,834	170	-	-	17,664	-	17,664	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	4,396	-	-	1,344	3,052	-	3,052	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	-	1,561	553	81	-	1,089	-	1,089	-	-
4501001	Insurance Service Revenue - CSM Release	Income	-	-	-	553	-	553	-	-	-	553
4501002	Insurance Service Revenue - Expected Claims - Income	Income	-	-	-	16	-	16	-	-	-	16
4501003	Insurance Finance Income - Investment Income	Income	-	-	-	1,425	-	1,425	-	-	-	1,425
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	-	-	16	-	16	-	-	-	16	-
5101011	Insurance Finance Expense - Interest Accretion on Fulfilment Cash Flows	Expense	-	-	1,344	-	1,344	-	-	-	1,344	-
5101012	Insurance Finance Expense - Share of Fair Value Changes	Expense	-	-	81	-	81	-	-	-	81	-
								-	-	-	-	-
3201007	Retained Earning	Equity	-	-	-	553	-	553	-	553	-	-
3201008	Profit/Loss current year	PnL	-	-	553	-	553	-	-	-	553	-
	<b>Total</b>		<b>19,396</b>	<b>19,396</b>	<b>4,142</b>	<b>4,142</b>	<b>21,301</b>	<b>21,301</b>	<b>19,307</b>	<b>19,307</b>	<b>1,994</b>	<b>1,994</b>

**Unit Link - VFA Illustration**  
**Statement of Profit or loss and other Comprehensive Income**  
**for the year Jan 01, to Dec 31, 20Y1**

	Reference
<b>Insurance Revenue</b>	<b>569</b> IAS 1.82(a)(ii), IFRS 17.83
<i>Expected Claims</i>	16
<i>Contractual Service Margin - Released</i>	553
<b>Insurance Service Expenses</b>	<b>(16)</b> AS 1.82(ab), IFRS 17.84
<i>Claim Incurred</i>	(16)
<i>Amortization of Insurance Acquisition Cash Flows</i>	-
<b>Insurance services result before reinsurance contracts held</b>	<b>553</b>
Allocation of reinsurance premiums	IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-
<b>Net expense from reinsurance contracts held</b>	<b>-</b> IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	<b>553</b> IFRS 17.80(a)
<b>Investment Income</b>	
Insurance Finance Income	1,425 IFRS 7.20(a)(i)
Insurance finance expenses for insurance contracts issued	(1,425) IAS 1.82(bb), IFRS 17.87
<i>Share of Fair value changes</i>	(81)
<i>Interest Accretion on Fulfilment Cash Flows</i>	(1,344)
Reinsurance finance income for reinsurance contracts held	-
<b>Net Insurance financial result</b>	<b>-</b> IAS 1.82(bc), IFRS 17.82
Other Income and expenses	
<b>Profit before tax</b>	<b>553</b>

**Unit Link - VFA Illustration**  
**Statement of Financial Position**  
**As at Dec 31,**

	Reference
<b>Assets</b>	
Cash and cash equivalents	16,255 IAS 1.54(i)
Investment Income Receivable	-
Debt instruments at fair value through other comprehensive income	IFRS 7.8(a)
Debt instruments at amortized cost	IFRS 7.8(h)
Insurance contract assets	IFRS 17.78(a)
Reinsurance contract assets	IFRS 17.78(c)
<b>Total assets</b>	<b>16,255</b>
<b>Liabilities</b>	
Current tax liabilities	
Insurance contract liabilities	15,702 IFRS 17.78(b)
<i>CSM</i>	1,089
<i>Fulfilment Cash Flow</i>	14,613
<i>Risk Adjustment</i>	-
<i>Liability for Incurred Claims</i>	-
Deferred tax liabilities	IAS 1.56, IAS 1.54(o)
Other payables	IAS 1.55
<b>Total liabilities</b>	<b>15,702</b>
<b>Equity</b>	
Issued capital	IAS 1.54(r), IAS 1.78e
Retained earnings	553 IAS 1.54(r), IAS 1.78e
Fair value reserve	IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve	IAS 1.54(r),
<b>Total equity</b>	<b>553</b>
<b>Total liabilities and equity</b>	<b>16,255</b>

## IFRS 17

Contractual Service Margin				
Year	0	1	2	3
PV Expected Future Cash Inflows	15,000	-	-	-
PV Expected Future Cash Outflows	13,439	14,613	15,904	-
<b>PV Expected Future Net Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Impact of Discounting	4,396	3,052	1,590	-
Non-Financial Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
<b>Contractual Service Margin:</b>				
Opening Balance	-	1,561	1,089	572
New Contracts	1,561	-	-	-
Investment Income	-	1,425	1,521	1,623
Finance Expense	-	1,344	1,461	1,590
Value of Insurer Share of underlying items	-	81	60	32
Transferred to P&L	-	553	577	604
<b>Closing Balance</b>	<b>1,561</b>	<b>1,089</b>	<b>572</b>	-

Insurance Contract Liabilities - IFRS 17				
Year	0	1	2	3
PV Expected Future Cash Flows	(1,561)	14,613	15,904	-
Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Contractual Service Margin	1,561	1,089	572	-
<b>Liabilities for Future Years</b>	-	<b>15,702</b>	<b>16,475</b>	-
Claim Reserves	-	-	-	-
<b>Total Insurance Contract Liabilities</b>	-	<b>15,702</b>	<b>16,475</b>	-

Profit & Loss - IFRS 17					
Year	0	1	2	3	Total
Release in CSM	-	553	577	604	<b>1,734</b>
Change in Risk Adjustment	-	-	-	-	-
Expected Claims in Fulfilment Cashflows	-	16	4	-	<b>21</b>
Expected Expenses	-	-	-	-	-
Expected Acquisition Costs	-	-	-	-	-
<b>Total Insurance Revenue</b>	-	<b>569</b>	<b>582</b>	<b>604</b>	<b>1,755</b>
Actual Claims Incurred	-	16	4	-	<b>21</b>
Actual Expenses Incurred	-	-	-	-	-
Actual Acquisition Costs	-	-	-	-	-
<b>Total Insurance Service Expenses</b>	-	<b>16</b>	<b>4</b>	-	<b>21</b>
<b>Net Insurance Service Result</b>	-	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>
Insurance Finance Income	-	1,425	1,521	1,623	<b>4,569</b>
Insurance Finance Expenses	-	1,425	1,521	1,623	<b>4,569</b>
<b>Net Financial Results</b>	-	-	-	-	-
<b>Profit / (Loss)</b>	-	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>

## IFRS 4

Fair Value of Underlying Assets				
Year	0	1	2	3
Opening Balance	-	-	15,208	16,229
Premiums Invested	-	14,250	-	-
Investment Income	-	1,425	1,521	1,623
Annual Charge	-	314	335	357
Death Payments	-	154	166	179
Maturity Payments	-	-	-	17,316
<b>Closing</b>	-	<b>15,208</b>	<b>16,229</b>	-

Insurance Contract Liabilities - IFRS 4				
Year	0 (EOY)	1 (EOY)	2 (EOY)	3 (EOY)
Fair Value of Underlying Assets	14,250	15,208	16,229	-
<b>Liabilities for Future Years</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	-
Claims Reserves	-	-	-	-
<b>Total Insurance Contract Liabilities</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	-

Profit & Loss - IFRS 4					
Year	0	1	2	3	Total
Premiums Income	-	15,000	-	-	15,000
Investment Income	-	1,425	1,521	1,623	4,569
<b>Total Income</b>	-	<b>16,425</b>	<b>1,521</b>	<b>1,623</b>	<b>19,569</b>
Claims Incurred	-	170	170	17,494	17,834
Expenses	-	-	-	-	-
Acquisition Costs	-	-	-	-	-
<b>Total Expenses</b>	-	<b>170</b>	<b>170</b>	<b>17,494</b>	<b>17,834</b>
Change in Liabilities for Future Years	-	15,208	1,021	(16,229)	-
<b>Profit / (Loss)</b>	-	<b>1,047</b>	<b>330</b>	<b>357</b>	<b>1,734</b>

**Unit Link - VFA Illustration  
General Journal Entries  
for the year Jan 01, to Dec 31, 20Y2**

<u>S#</u>	<u>Date</u>	<u>Code</u>	<u>Account Title (IFRS 17)</u>	<u>Nature of A/c</u>	<u>Dr / Cr</u>	<u>Amount</u>	<u>Narration</u>
1	1/1/20Y2	5101011Dr 2101027Cr	5101011 Insurance Finance Expense - Interest Accretion on Fulfilment Cash Flows 2101027 Insurance Contract Liability - Liability for Remaining Coverage - Discount	Expense Liability	Dr Cr	1,461 1,461	Unwinding of discount on fulfilment cash flows
2	1/1/20Y2	5101012Dr 2101028Cr	5101012 Insurance Finance Expense - Share of Fair Value Changes 2101028 Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Expense Liability	Dr Cr	60 60	Change in value of underlying asset
3	1/1/20Y2	2101028Dr 4501001Cr	2101028 Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin 4501001 Insurance Service Revenue - CSM Release	Liability Income	Dr Cr	577 577	CSM Released
4	1/1/20Y2	1101001Dr 4501003Cr	1101001 Bank 4501003 Insurance Finance Income - Investment Income	Asset Income	Dr Cr	1,521 1,521	Investment income received
5	1/1/20Y2	2101026Dr 4501002Cr	2101026 Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability 4501002 Insurance Service Revenue - Expected Claims - Income	Liability Income	Dr Cr	4 4	Expected claim booked
6	1/1/20Y2	5101002Dr 1101001Cr	5101002 Insurance Service Expense - Claim Incurred - Expense 1101001 Bank	Expense Asset	Dr Cr	4 4	Claim incurred & Paid
7	1/1/20Y2	2101026Dr 1101001Cr	2101026 Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability 1101001 Bank	Liability Asset	Dr Cr	166 166	Fund value paid

**Unit Link - VFA Illustration**  
**Trial Balance**  
**for the year Jan 01, to Dec 31, 20Y2**

Account Code	Account Title (IFRS 17)	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1101001	Bank	Asset	16,255	-	1,521	170	17,606	-	17,606	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	-	17,664	170	-	-	17,494	-	17,494	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	3,052	-	-	1,461	1,590	-	1,590	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	-	1,089	577	60	-	572	-	572	-	-
4501001	Insurance Service Revenue - CSM Release	Income	-	-	-	577	-	577	-	-	-	577
4501002	Insurance Service Revenue - Expected Claims - Income	Income	-	-	-	4	-	4	-	-	-	4
4501003	Insurance Finance Income - Investment Income	Income	-	-	-	1,521	-	1,521	-	-	-	1,521
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	-	-	4	-	4	-	-	-	4	-
5101011	Insurance Finance Expense - Interest Accretion on Fulfilment Cash Flows	Expense	-	-	1,461	-	1,461	-	-	-	1,461	-
5101012	Insurance Finance Expense - Share of Fair Value Changes	Expense	-	-	60	-	60	-	-	-	60	-
			-	-	-	-	-	-	-	-	-	-
3201007	Retained Earning	Equity	-	553	-	577	-	1,130	-	1,130	-	-
3201008	Profit/Loss current year	PnL	-	-	577	-	577	-	-	-	577	-
	<b>Total</b>		<b>19,307</b>	<b>19,307</b>	<b>4,370</b>	<b>4,370</b>	<b>21,298</b>	<b>21,298</b>	<b>19,196</b>	<b>19,196</b>	<b>2,102</b>	<b>2,103</b>

**Unit Link - VFA Illustration**  
**Statement of Profit or loss and other Comprehensive Income**  
 for the year Jan 01, to Dec 31, 20Y2

	Reference
<b>Insurance Revenue</b>	<b>582</b>
<i>Expected Claims</i>	4
<i>Contractual Service Margin - Released</i>	577
<b>Insurance Service Expenses</b>	<b>(4)</b>
<i>Claim Incurred</i>	(4)
<i>Amortization of Insurance Acquisition Cash Flows</i>	-
<b>Insurance services result before reinsurance contracts held</b>	<b>577</b>
Allocation of reinsurance premiums	IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-
<b>Net expense from reinsurance contracts held</b>	<b>-</b>
<b>Insurance service result</b>	<b>577</b>
<b>Investment Income</b>	
Insurance Finance Income	1,521
Insurance finance expenses for insurance contracts issued	(1,521)
<i>Share of Fair value changes</i>	(60)
<i>Interest Accretion on Fulfilment Cash Flows</i>	(1,461)
Reinsurance finance income for reinsurance contracts held	-
<b>Net Insurance financial result</b>	<b>-</b>
Other Income and expenses	-
<b>Profit before tax</b>	<b>577</b>

**Unit Link - VFA Illustration**  
**Statement of Financial Position**  
 As at Dec 31,

	Reference
<b>Assets</b>	
Cash and cash equivalents	17,606
Investment Income Receivable	-
Debt instruments at fair value through other comprehensive income	-
Debt instruments at amortized cost	-
Insurance contract assets	-
Reinsurance contract assets	-
<b>Total assets</b>	<b>17,606</b>
<b>Liabilities</b>	
Current tax liabilities	-
Insurance contract liabilities	16,475
<i>CSM</i>	572
<i>Fulfilment Cash Flow</i>	15,904
<i>Risk Adjustment</i>	-
<i>Liability for Incurred Claims</i>	-
Deferred tax liabilities	-
Other payables	-
<b>Total liabilities</b>	<b>16,475</b>
<b>Equity</b>	
Issued capital	-
Retained earnings	1,130
Fair value reserve	-
Insurance/reinsurance finance reserve	-
<b>Total equity</b>	<b>1,130</b>
<b>Total liabilities and equity</b>	<b>17,605</b>

**IFRS 17**

<b>Contractual Service Margin</b>				
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
PV Expected Future Cash Inflows	15,000	-	-	-
PV Expected Future Cash Outflows	13,439	14,613	15,904	-
<b>PV Expected Future Net Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Impact of Discounting	4,396	3,052	1,590	-
Non-Financial Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
<b>Contractual Service Margin:</b>				
Opening Balance	-	1,561	1,089	572
New Contracts	1,561	-	-	-
Investment Income	-	1,425	1,521	1,623
Finance Expense	-	1,344	1,461	1,590
Value of Insurer Share of underlying items	-	81	60	32
Transferred to P&L	-	553	577	604
<b>Closing Balance</b>	<b>1,561</b>	<b>1,089</b>	<b>572</b>	-

<b>Insurance Contract Liabilities - IFRS 17</b>				
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
PV Expected Future Cash Flows	(1,561)	14,613	15,904	-
Risk Adjustment	-	-	-	-
<b>Fulfilment Cash Flows</b>	<b>(1,561)</b>	<b>14,613</b>	<b>15,904</b>	-
Contractual Service Margin	1,561	1,089	572	-
<b>Liabilities for Future Years</b>	-	<b>15,702</b>	<b>16,475</b>	-
Claim Reserves	-	-	-	-
<b>Total Insurane Contract Liabilities</b>	-	<b>15,702</b>	<b>16,475</b>	-

<b>Profit &amp; Loss - IFRS 17</b>					
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Total</b>
Release in CSM	-	553	577	604	<b>1,734</b>
Change in Risk Adjustment	-	-	-	-	-
Expected Claims in Fulfilment Cashflows	-	16	4	-	<b>21</b>
Expected Expenses	-	-	-	-	-
Expected Acquisition Costs	-	-	-	-	-
<b>Total Insurance Revenue</b>	-	<b>569</b>	<b>582</b>	<b>604</b>	<b>1,755</b>
Actual Claims Incurred	-	16	4	-	<b>21</b>
Actual Expenses Incurred	-	-	-	-	-
Actual Acquisition Costs	-	-	-	-	-
<b>Total Insurance Service Expenses</b>	-	<b>16</b>	<b>4</b>	-	<b>21</b>
<b>Net Insurance Service Result</b>	-	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>
Insurance Finance Income	-	1,425	1,521	1,623	<b>4,569</b>
Insurance Finance Expenses	-	1,425	1,521	1,623	<b>4,569</b>
<b>Net Financial Results</b>	-	-	-	-	-
<b>Profit / (Loss)</b>	-	<b>553</b>	<b>577</b>	<b>604</b>	<b>1,734</b>

**IFRS 4**

<b>Fair Value of Underlying Assets</b>				
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
Opening Balance	-	-	15,208	16,229
Premiums Invested	-	14,250	-	-
Investment Income	-	1,425	1,521	1,623
Annual Charge	-	314	335	357
Death Payments	-	154	166	179
Maturity Payments	-	-	-	17,316
<b>Closing</b>	-	<b>15,208</b>	<b>16,229</b>	-

<b>Insurance Contract Liabilities - IFRS 4</b>				
<b>Year</b>	<b>0 (EOY)</b>	<b>1 (EOY)</b>	<b>2 (EOY)</b>	<b>3 (EOY)</b>
Fair Value of Underlying Assets	14,250	15,208	16,229	-
<b>Liabilities for Future Years</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	-
Claims Reserves	-	-	-	-
<b>Total Insurance Contract Liabilities</b>	<b>14,250</b>	<b>15,208</b>	<b>16,229</b>	-

<b>Profit &amp; Loss - IFRS 4</b>					
<b>Year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Total</b>
Premiums Income	-	15,000	-	-	15,000
Investment Income	-	1,425	1,521	1,623	4,569
<b>Total Income</b>	-	<b>16,425</b>	<b>1,521</b>	<b>1,623</b>	<b>19,569</b>
Claims Incurred	-	170	170	17,494	17,834
Expenses	-	-	-	-	-
Acquisition Costs	-	-	-	-	-
<b>Total Expenses</b>	-	<b>170</b>	<b>170</b>	<b>17,494</b>	<b>17,834</b>
Change in Liabilities for Future Years	-	15,208	1,021	(16,229)	-
<b>Profit / (Loss)</b>	-	<b>1,047</b>	<b>330</b>	<b>357</b>	<b>1,734</b>

**Unit Link - VFA Illustration  
General Journal Entries  
for the year Jan 01, to Dec 31, 20Y3**

<u>S#</u>	<u>Date</u>	<u>Code</u>	<u>Account Title (IFRS 17)</u>	<u>Nature of A/c</u>	<u>Dr / Cr</u>	<u>Amount</u>	<u>Narration</u>
1	1/1/20Y3	5101011	Insurance Finance Expense - Interest Accretion on Fulfilment Cash Flows	Expense	Dr	1,590	Unwinding of discount on fulfilment cash flows
		2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	Cr	1,590	
2	1/1/20Y3	5101012	Insurance Finance Expense - Share of Fair Value Changes	Expense	Dr	32	Change in value of underlying asset
		2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service M	Liability	Cr	32	
3	1/1/20Y3	2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service M	Liability	Dr	604	CSM Released
		4501001	Insurance Service Revenue - CSM Release	Income	Cr	604	
4	1/1/20Y3	1101001	Bank	Asset	Dr	1,623	Investment income received
		4501003	Insurance Finance Income - Investment Income	Income	Cr	1,623	
5	1/1/20Y3	2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	17,494	Fund value paid
		1101001	Bank	Asset	Cr	17,494	

**Unit Link - VFA Illustration**  
**Trial Balance**  
**for the year Jan 01, to Dec 31, 20Y3**

Account Code	Account Title (IFRS 17)	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1101001	Bank	Asset	17,606	-	1,623	17,494	1,734	-	1,734	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	-	17,494	17,494	-	-	-	-	-	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	1,590	-	-	1,590	-	-	-	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	-	572	604	32	-	-	-	-	-	-
4501001	Insurance Service Revenue - CSM Release	Income	-	-	-	604	-	604	-	-	-	604
4501002	Insurance Service Revenue - Expected Claims - Income	Income	-	-	-	-	-	-	-	-	-	-
4501003	Insurance Finance Income - Investment Income	Income	-	-	-	1,623	-	1,623	-	-	-	1,623
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	-	-	-	-	-	-	-	-	-	-
5101011	Insurance Finance Expense - Interest Accretion on Fulfilment Cash Flows	Expense	-	-	1,590	-	1,590	-	-	-	1,590	-
5101012	Insurance Finance Expense - Share of Fair Value Changes	Expense	-	-	32	-	32	-	-	-	32	-
3201007	Retained Earning	Equity	-	1,130	-	604	-	1,734	-	1,734	-	-
3201008	Profit/Loss current year	PnL	-	-	604	-	604	-	-	-	604	-
<b>Total</b>			<b>19,196</b>	<b>19,196</b>	<b>21,948</b>	<b>21,948</b>	<b>3,961</b>	<b>3,961</b>	<b>1,734</b>	<b>1,734</b>	<b>2,227</b>	<b>2,227</b>

**Unit Link - VFA Illustration**  
**Statement of Profit or loss and other Comprehensive Income**  
**for the year Jan 01, to Dec 31, 20Y3**

	Reference	
<b>Insurance Revenue</b>	<b>604</b>	IAS 1.82(a)(ii), IFRS 17.83
<i>Expected Claims</i>	-	
<i>Contractual Service Margin - Released</i>	604	
<b>Insurance Service Expenses</b>	-	AS 1.82(ab), IFRS 17.84
<i>Claim Incurred</i>	-	
<i>Amortization of Insurance Acquisition Cash Flows</i>	-	
<b>Insurance services result before reinsurance contracts held</b>	<b>604</b>	
Allocation of reinsurance premiums		IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-	IFRS 17.86
<b>Net expense from reinsurance contracts held</b>	-	IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	<b>604</b>	IFRS 17.80(a)
<b>Investment Income</b>		
Insurance Finance Income	1,623	IFRS 7.20(a)(i)
Insurance finance expenses for insurance contracts issued	(1,623)	IAS 1.82(bb), IFRS 17.87
<i>Share of Fair value changes</i>	(32)	
<i>Interest Accretion on Fulfilment Cash Flows</i>	(1,590)	
Reinsurance finance income for reinsurance contracts held		IAS 1.82(bc), IFRS 17.82
<b>Net Insurance financial result</b>	-	
Other Income and expenses		
<b>Profit before tax</b>	<b>604</b>	

**Unit Link - VFA Illustration**  
**Statement of Financial Position**  
**As at Dec 31,**

	Reference	
<b>Assets</b>		
Cash and cash equivalents	1,734	IAS 1.54(i)
Investment Income Receivable	-	
Debt instruments at fair value through other comprehensive income		IFRS 7.8(a)
Debt instruments at amortized cost		IFRS 7.8(h)
Insurance contract assets		IFRS 17.78(a)
Reinsurance contract assets	-	IFRS 17.78(c)
<b>Total assets</b>	<b>1,734</b>	
<b>Liabilities</b>		
Current tax liabilities		
Insurance contract liabilities	-	IFRS 17.78(b)
<i>CSM</i>	-	
<i>Fulfilment Cash Flow</i>	-	
<i>Risk Adjustment</i>	-	
<i>Liability for Incurred Claims</i>	-	
Deferred tax liabilities		IAS 1.56, IAS 1.54(o)
Other payables		IAS 1.55
<b>Total liabilities</b>	-	
<b>Equity</b>		
Issued capital		IAS 1.54(r), IAS 1.78e
Retained earnings	1,734	IAS 1.54(r), IAS 1.78e
Fair value reserve		IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve		IAS 1.54(r),
<b>Total equity</b>	<b>1,734</b>	
<b>Total liabilities and equity</b>	<b>1,734</b>	

# Impact on Life Insurers – Actuarial, Accounting and IT Areas

# Impact on Actuarial Calculations

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Life Insurers are expected to face certain changes in the actuarial calculations compared to current state

In case of unit-linked products, currently, only the unit reserves are held by most companies

For other products, a mathematical liability is developed in the actuarial models and held by the company

These liabilities have implicit conservatism which is reflected in the assumptions

IFRS-17 will shift the actuarial calculations such that the BEL (PVFCF) and conservatism (risk adjustment) is kept separate

In addition, a CSM will also be calculated and held as a separate liability. This will most likely be handled by the IFRS-17 engine and will impact the IT area as well.

# Impact on Actuarial Calculations

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CSM is a new item, and the actuarial department will have the responsibility to design the logics that will be used by the engine

Risk adjustment will also be a new component which will be handled by the actuarial department

Several methodologies exist for developing risk adjustment such as cost of capital, quantile approach or a simple factor approach

However, each approach requires setting of assumptions, capital amounts and diversification principles as well

Therefore, the risk adjustment will be another component requiring more input from the actuarial department of the company

# Impact on Actuarial Calculations

---

Generally, the involvement of actuarial department is expected to increase

This is because of the insurance service revenue being based exclusively on actuarially generated items

The release in CSM is one of the greatest driver of Insurance Service Revenue (the top line) for life insurers

Apart from that, the release in loss component also impacts the ISR and Insurance Service Expense as well

In addition, new requirements, such as profitability tagging, will also require input from the actuarial department

Another area of impact, which may not affect life insurers considerably is the granularity of the calculations.

Although IFRS-17 requires calculation at a GOC level, higher level of granularity may be used (such as policy level which is common for life insurance policies)

# Impact on Accounting Areas

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IFRS-17 being an accounting standard impacts the accounting areas the most

For life insurers, most of the business is long-term leading to creation of a CSM. This requires modification of the accounting entries to incorporate the movement of CSM

Apart from that, the normal accounting events will have a different treatment as well. For instance, change in mathematical reserves will not be shown in the P&L statement

Moreover, a complete overhaul of the accounting entries pertaining to the P&L will be observed. Premiums will no longer be the top line for most long-term life business

The implementation of IFRS-17 will not change the profitability of the underlying contracts issued but will change the nature with which it is recorded

Finally, on face of the balance sheet, the assets and liabilities will be reorganized with Insurance Contract Asset and Liabilities being the major heads

# Impact on Accounting Areas

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Issuance year requirement for level of aggregation will require the new sub-ledgers to be established every year

Even for same product but with different levels of profitability, separate sub-ledgers would be required in an accounting system

Portfolio level modifications may not be significant depending on the Company's accounting system capabilities

The company will have to develop a process for this regular update to the chart of accounts

# Impact on IT Areas

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IT is the bridge between various departments in insurance companies. Finance, Actuarial and Accounting is linked via IT

Current systems are designed to optimize things for IFRS-4 standard. The implementation of the new standard will require modification of the existing systems

For life insurance companies, a loop will have to be developed for the profitability

Apart from that, the database will have to be modified for extra variables such as the level of aggregation tags and extra liability amounts

Finally, the IFRS-17 engines generally require inputs in a particular format. Therefore, the IT framework will have to be modified to contain a staging area

# Impact on IT Areas

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Ideally, the staging area will have data validation section, the data consolidation section and a data extraction tool to generate the results to be input into the IFRS-17 engine

The validation module will contain several data validation rules. Here, the data means output from the actuarial models

The validation rules may include, for inception models, that the net cash flow be negative for a group of contract tagged onerous. In addition, a liability runoff check may also be applied to the data as well

Any formatting of the actuarial data before it is input into the IFRS-17 engine will also be done in the staging area

The data consolidation area will have two functions for life insurers, to consolidate the IFRS-17 engine inputs as well as hold a repository for the assumptions.

# Impact on IT Areas

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From this consolidation area, the data will be extracted and input into the IFRS-17 engine

The engine will process most of the closing liabilities or may as well take the transactional data as an input too

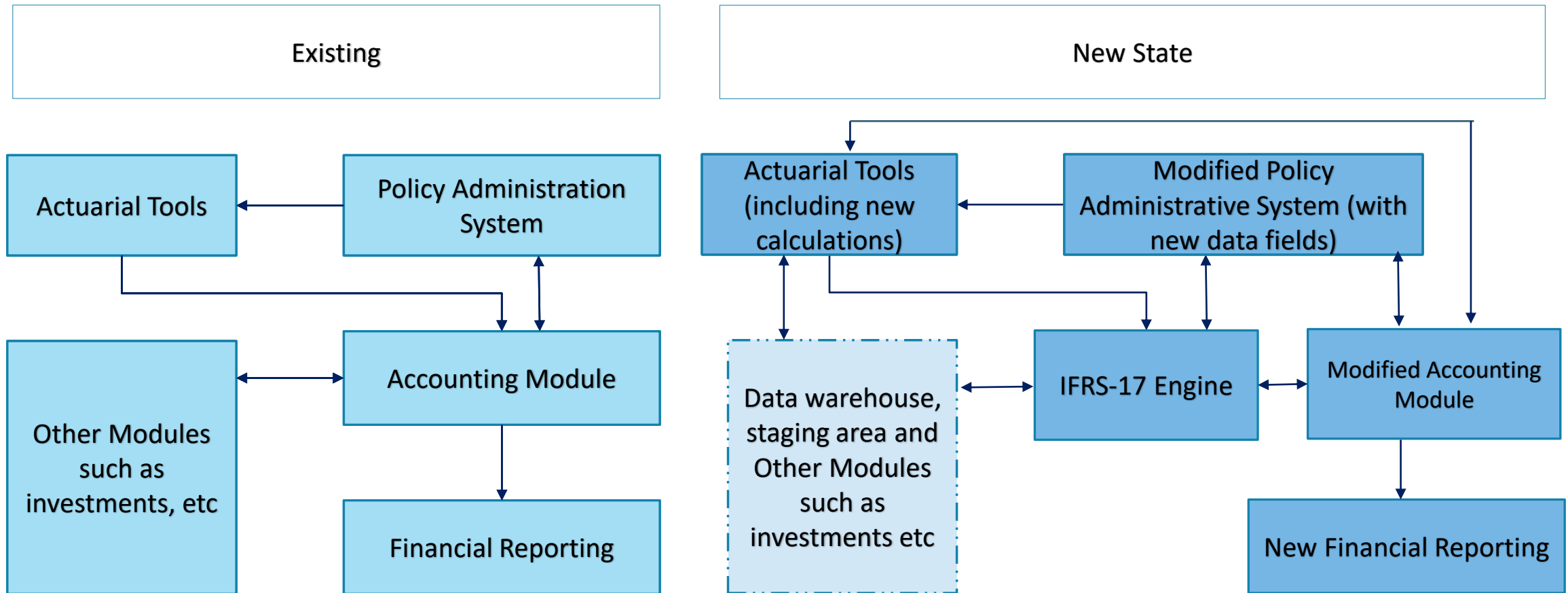
In either case, the entries from the IFRS-17 engine will be merged with the current non-insurance (assets or other business not in IFRS-17) trial balance

Thus, the IT will have an impact from this area as well

As before, the system will be a breathing component starting from underwriting to the generation of accounting entries and financial reporting

The comparative structure of the IT system is shown below:

# Existing State Vs. IFRS 17



# Conclusion

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To sum up, extensive training will be required for the actuarial, accounting and IT departments of the company

The natural starting point will be the actuarial department since the change in various actuarial items will have to be carried out before the accounting for these items is created

Following that, the accounting teams and IT teams can be involved

It should, however, be ensured that all the teams are involved in the project since one area is not wholly responsible/capable for the entire project

Overall, training along with necessary system changes will be required to ensure the smooth transition to IFRS-17

A person in a dark suit and patterned tie is holding a large white umbrella. In the foreground, there are white silhouettes of a car, a house, and a family of four. The background is a blurred office setting.

# IFRS-17 for Non-Life Insurers

Assessment of Impact on Actuarial, Accounting and IT Areas

# Overview of the Premium Allocation Approach

# Premium Allocation Approach

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**Eligibility criteria** to adopt the simplified PAA approach:

- Contracts issued for a period of one year or less; OR
- Reasonable approximation of the General Model where entity does not expect significant variability in the cashflows during the pre-claims period.

IFRS 17 Liability measurement (under PAA) = Liability for remaining coverage (pre-claims coverage) + Liability for incurred claims

Whereas,

- Liability for remaining coverage = UPR + DAC + LC
- UPR in IFRS-17 is the same as in IFRS-4
- DAC calculation is similar to IFRS-4 but the DAC includes additional UW salaries and costs related to sales of the group of contracts
- LC in IFRS-17 = PDR in IFRS-4 (the difference is: it has to be calculated at the BOP, RA, discounting impacts)

# Premium Allocation Approach

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- Liability for incurred Claims = Best estimate + Risk Adjustment + Discounting Impact
- Best estimate in IFRS-17 is OS + IBNR as in IFRS-4
- RA is a new item under IFRS-17 whereas an implicit buffer was kept under IFRS-4
- No need for discounting liability for incurred claims if payments of claims due within one year
- Release of Risk adjustment within the liability for incurred claims reduces incurred claims in profit or loss
- Cash flows, discount rates and risk adjustment are updated at each reporting date

# PAA for reinsurance contracts held

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In terms of presentation, an entity can either present income or expenses from a group of reinsurance contracts held

- As a single amount; OR
- Separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. This would mean that reinsurance commissions to be reduced from reinsurance premiums.

With the PAA eligibility test having to be applied to outwards contracts too, multi-year reinsurance coverage may have to be measured on a General Model basis. Careful consideration will also need to be taken on how retrospective reinsurance covers are accounted for.

Proportional treaties (such as quota share) due to change in contract boundaries definition may not straight forward fall into the PAA approach.

The PAA approach would be applicable for loss occurring bases rather than risk attaching basis. i.e. cases where excess of loss (per risk, per event or accumulated) or on catastrophe risk protection.

# Technical Requirements for Onerous Contracts (if PAA was initially followed)

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[IFRS 17-57]: If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:

- (a) the carrying amount of the liability for remaining coverage determined applying paragraph 55 (essentially PAA); and
- (b) the fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 (essentially GM) and B36–B92.

[IFRS 17-58]: To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in profit or loss and increase the liability for remaining coverage.

# Risk Margin – Liability for Incurred Claims

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- No prescribed approach
- An explicit Risk adjustment required on a gross and reinsurance basis separately
- Re-measured at each reporting period
- Allows for effect of diversification between portfolios within a reporting entity
- Regardless of the method chosen, a confidence level equivalent must be calculated and disclosed (e.g. VAR percentile)
- Given the income statement impact of IFRS-17 risk adjustment and required disclosure in the report and accounts, management might require more detailed risk adjusted claims data.

# Premium Allocation Approach – New Practices and Impacts

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- Onerous contracts - need to recognize upfront losses if contract is onerous based on facts and circumstances (under GM model);
- Interest accretion and discounting (if CF duration greater than one year);
- Explicit risk adjustment in the liability for incurred claims with confidence level;
- Pattern of revenue recognition over the coverage period (linearly pro-rated or based on service level);
- Revenue presentation in profit and loss account

# Example 1

## PAA – A Simple Example

# A Simple Example

Particulars	Value
Coverage Period	2 Year
Total Premium	Rs. 500 <i>Paid at start of coverage</i>
Total Claims	Rs. 500 <i>Paid at end of <b>Year 3</b></i> <i>Incurred Uniformly over the first two years (i.e. a claim is expected at the end of each year)</i>
Discount Rate	3.00% p.a. (assumed not to be changed)
Investment Return	5.00% p.a. of Invested Premiums
Accounting Model	Premium Allocation Approach (PAA)

- For Simplicity Risk Adjustment and Expenses have been ignored
- This example does not assume any changes in the discount rate. If there were changes in the discount rate, the insurer could choose to present the changes in the investment activity that are related to the effect of changes in the discount rate in Other Comprehensive Income (OCI).

# A Simple Example

IFRS 17 – Liability for Remaining Coverage			
Year	1	2	3
Opening Balance	500	258	-
Interest Accretion	15	8	-
Amount Recognized in P&L	(258)	(265)	-
<b>Closing Balance</b>	<b>258</b>	<b>-</b>	<b>-</b>

IFRS 17 – Liability for Incurred Claims			
Year	1	2	3
Opening Balance	-	236	485
Interest Accretion	-	7	15
Claims Incurred	236	243	-
<b>Closing Balance</b>	<b>236</b>	<b>485</b>	<b>500</b>

Insurance Service Revenue

Insurance Finance Expense

Insurance Service Expense

# A Simple Example

Year	IFRS 4			
	1	2	3	Total
Earned Premiums	250	250	-	500
Investment Income	25	26	28	79
<b>Total Income</b>	<b>275</b>	<b>276</b>	<b>28</b>	<b>579</b>
Claims Paid	-	-	(500)	(500)
Change in Claims Reserves	(250)	(250)	500	-
<b>Incurred Claims</b>	<b>(250)</b>	<b>(250)</b>	<b>-</b>	<b>(500)</b>
<b>Profit / (Loss)</b>	<b>25</b>	<b>26</b>	<b>28</b>	<b>79</b>

Year	IFRS 17			
	1	2	3	Total
Insurance Service Revenue	258	265	-	523
Insurance Service Expense	(236)	(243)	-	(478)
<b>Insurance Service Result</b>	<b>22</b>	<b>23</b>	<b>-</b>	<b>44</b>
Insurance Finance Income	25	26	28	79
Insurance Finance Expense	(15)	(15)	(15)	(44)
<b>Net Financial Result</b>	<b>10</b>	<b>11</b>	<b>13</b>	<b>34</b>
<b>Profit / (Loss)</b>	<b>32</b>	<b>34</b>	<b>13</b>	<b>79</b>

Year	IFRS 17 – Assets under PAA		
	1	2	3
Opening Balance	500	525	551
Interest Accretion (5%)	25	26	28
<b>Closing Balance</b>	<b>525</b>	<b>551</b>	<b>579</b>

Example 2  
General Measurement Model  
vs  
Premium Allocation Approach –  
Single Premium Engineering Policy

**Assumptions**

Coverage Period	2 years	<ul style="list-style-type: none"> <li>• All premiums and acquisition cost pays immediately after recognition</li> <li>• This illustration is presented using IFRS 17 standards.</li> <li>• It is without reinsurance impact</li> <li>• Risk adjustment is ignored, for simplicity</li> <li>• All amounts are denominated in currency units (CU)</li> <li>• Coverage unit distribution is assumed to be same as risk distribution</li> </ul>
Premium received immediately at inception of policy	2,000	
Claims incurred & paid in 2 years (as per risk dist.)	1,500	
Risk Adjustment	0.0%	
locked-in discount rate	1.5%	
Expense Ratio on disc. Basis	0%	
Acquisition cost ratio on disc. Basis	15%	
Investment rate	0.2%	
Actual Claim	110%	

<b>Quarter</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Risk distribution / Coverage Unit	12.71%	20.00%	25.00%	15.00%	10.00%	7.50%	5.50%	4.30%

Expected discounted Cash Flows	Quarter									Total	
	0	1	2	3	4	5	6	7	8		
Premium	2,000	-	-								2,000
Claims & Expenses		(190)	(298)	(371)	(222)	(147)	(110)	(80)	(63)		(1,480)
Acquisition Costs	(300)										(300)
Investment Income			4	4	4	4	4	4	4	4	32
<b>Total</b>	<b>1,700</b>	<b>(186)</b>	<b>(294)</b>	<b>(367)</b>	<b>(218)</b>	<b>(143)</b>	<b>(106)</b>	<b>(76)</b>	<b>(59)</b>		<b>252</b>
<b>Actual Cash Discounted Flows</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>Total</b>	
Premium	2,000	-	-								2,000
Claims & Expenses		(209)	(328)	(408)	(244)	(162)	(121)	(88)	(69)		(1,628)
Acquisition Costs	(300)										(300)
Investment Income			4	4	4	4	4	4	4	4	32
<b>Total</b>	<b>1,700</b>	<b>(205)</b>	<b>(324)</b>	<b>(404)</b>	<b>(240)</b>	<b>(158)</b>	<b>(117)</b>	<b>(84)</b>	<b>(65)</b>		<b>104</b>

## Cash Flows

**Insurance Contract Liability**

<b>Quarter</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
PV Expected Future Cash Inflows	(2,000)	-	-						
PV Expected Future Cash Outflows	1,780	1,295	1,000	629	406	258	146	64	-
<b>PV Expected Future Net Cash Flows</b>	<b>(220)</b>	<b>1,295</b>	<b>1,000</b>	<b>629</b>	<b>406</b>	<b>258</b>	<b>146</b>	<b>64</b>	<b>-</b>
Non-Financial Risk Adjustment	-	-							
Fulfilment Cash Flows	(220)	1,295	1,000	629	406	258	146	64	-
CSM	220	192	149	94	61	39	22	10	-
<b>Insurance contract liability</b>	<b>-</b>	<b>1,488</b>	<b>1,149</b>	<b>723</b>	<b>467</b>	<b>296</b>	<b>168</b>	<b>74</b>	<b>-</b>

**Contractual Service Margin**

<b>Quarter</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Opening Balance	-	220	192	149	94	61	39	22	10
New Contracts	220	-							-
Interest Accretion	-	1	1	1	0	0	0	0	0
Transferred to P&L	-	(28)	(44)	(56)	(33)	(22)	(17)	(12)	(10)
<b>Closing Balance</b>	<b>220</b>	<b>192</b>	<b>149</b>	<b>94</b>	<b>61</b>	<b>39</b>	<b>22</b>	<b>10</b>	<b>-</b>

# General Measurement Model

## GMM Model – Income Statement

Income Statement	Quarter								Total
	1	2	3	4	5	6	7	8	
Expected Claims & Expense	191	300	375	225	150	112	82	64	1,500
Release of the CSM	28	44	56	33	22	17	12	10	223
Acquisition costs experience adj.									-
Premium experience adj.									-
Acquisition costs recognition	300								300
<b>Insurance Revenue</b>	<b>519</b>	<b>344</b>	<b>430</b>	<b>258</b>	<b>172</b>	<b>129</b>	<b>95</b>	<b>74</b>	<b>2,023</b>
Actual Claims and Expenses	(209)	(328)	(408)	(244)	(162)	(121)	(88)	(69)	(1,628)
Acquisition Cost Recognition	(300)								(300)
Loss Component Recognition									-
Loss Component run-off									-
<b>Insurance Service Costs</b>	<b>(509)</b>	<b>(328)</b>	<b>(408)</b>	<b>(244)</b>	<b>(162)</b>	<b>(121)</b>	<b>(88)</b>	<b>(69)</b>	<b>(1,928)</b>
Investment income	4	4	4	4	4	4	4	4	32
Finance Expense	(6)	(5)	(4)	(2)	(2)	(1)	(1)	(0)	(20)
Finance Expense - CSM	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(3)
<b>Net Insurance Finance Expense</b>	<b>(2)</b>	<b>(2)</b>	<b>(0)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>9</b>
<b>Profit or Loss</b>	<b>7</b>	<b>15</b>	<b>22</b>	<b>16</b>	<b>13</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>104</b>

**An illustration of General Measurement Model for Engineering  
General Journal Entries  
For the Year 0**

<u>S#</u>	<u>Code</u>	<u>Account Title (IFRS 17)</u>	<u>Nature of A/c</u>	<u>Dr / Cr</u>	<u>Quarter 0</u>	<u>Narration</u>
<b><i>Premium not received</i></b>						<b><u>mount in C</u></b>
1	2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	200	
	2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	Dr	20	Discount on cash outflow
	2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	Cr	220	CSM booked
<b><i>After receiving of premium</i></b>						
2	1101001	Bank	Asset	Dr	2,000	Premium received
	2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Cr	2,000	
3	2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	300	Insurance acquisition cost paid
	1101001	Bank	Asset	Cr	300	

## An illustration of General Measurement Model for Engineering

## Trial Balance

For the Year 0

Account Code	Account Code	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1101001	Bank	Asset			2,000	300	1,700	-	1,700	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability			500	2,000	-	1,500	-	1,500	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability			20	-	20	-	20	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability			-	220	-	220	-	220	-	-
	<b>Total</b>		-	-	<b>2,520</b>	<b>2,520</b>	<b>1,720</b>	<b>1,720</b>	<b>1,720</b>	<b>1,720</b>	-	-

An illustration of General Measurement Model for Engineering  
Statement of Profit or loss and other Comprehensive Income  
For the Year 0

	Reference
<b>Insurance Revenue</b>	IAS 1.46, IAS 1.45 IAS 1.82(a)(ii), IFRS 17.83
Expected Claims	-
Contractual Service Margin - Released	-
Insurance Acquisition Revenue - Systematic Allocation	-
<b>Insurance Service Expenses</b>	AS 1.82(ab), IFRS 17.84
Claim Incurred	-
Amortization of Insurance Acquisition Cash Flows	-
<b>Insurance services result before reinsurance contracts held</b>	-
Allocation of reinsurance premiums	IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-
<b>Net expense from reinsurance contracts held</b>	IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	IFRS 17.80(a)
<b>Investment Income</b>	
Insurance Finance Income	IFRS 7.20(a)(i)
<b>Insurance finance expenses for insurance contracts issued</b>	IAS 1.82(bb), IFRS 17.87 IAS 1.82(bc), IFRS 17.82
Interest Accretion on Best Estimate Liability	-
Interest Accretion on CSM	-
Reinsurance finance income for reinsurance contracts held	-
<b>Net Insurance financial result</b>	-
Other Income and expenses	-
<b>Profit before tax</b>	-

An illustration of General Measurement Model for Engineering  
Statement of Financial Position  
As at Dec 31,

	Reference
<b>Assets</b>	
Cash and cash equivalents	1,700 IAS 1.54(i)
Investment Income Receivable	
Debt instruments at fair value through other comprehensive income	IFRS 7.8(a)
Debt instruments at amortized cost	IFRS 7.8(h)
Insurance contract assets	IFRS 17.78(a)
Reinsurance contract assets	-
<b>Total assets</b>	<b>1,700</b>
<b>Liabilities</b>	
Current tax liabilities	
Insurance contract liabilities	1,700 IFRS 17.78(b)
CSM	220
Fulfilment Cash Flow	1,480
Risk Adjustment	-
Liability for Incurred Claims	-
Deferred tax liabilities	IAS 1.56, IAS 1.54(o)
Other payables	IAS 1.55
<b>Total liabilities</b>	<b>1,700</b>
<b>Equity</b>	
Issued capital	IAS 1.54(r), IAS 1.78(e)
Retained earnings	-
Fair value reserve	IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve	IAS 1.54(r),
<b>Total equity</b>	-
<b>Total liabilities and equity</b>	<b>1,700</b>

**An illustration of General Measurement Model for Engineering  
General Journal Entries  
For the Year 1 (from Q1 to Q4)**

S#	Code	Account Title (IFRS 17)	Nature of A/c	Dr / Cr	Quarter				Narration
					1	2	3	4	
					Amount in CU				
1	5101005	Insurance Finance Expense - Best Estimate Liability - Discounting	Expense	Dr	6	5	4	2	Unwinding of discount - BEL
	2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	Cr	6	5	4	2	
2	2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	191	300	375	225	Expected claim booked
	4501002	Insurance Service Revenue - Expected Claims - Income	Income	Cr	191	300	375	225	
3	5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	Dr	209	328	408	244	Claim Paid
	1101001	Bank	Asset	Cr	209	328	408	244	
4	5101004	Insurance Finance Expense - Interest Accretion on CSM	Expense	Dr	1	1	1	0	Interest accretion on CSM
	2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	Cr	1	1	1	0	
5	2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	Dr	28	44	56	33	CSM Released
	4501001	Insurance Service Revenue - CSM Release	Income	Cr	28	44	56	33	
6	5101008	Insurance Service Expense - Amortization of Insurance Acquisition Cash Flows	Expense	Dr	300	-	-	-	Systematic allocation of insurance service expense & revenue
	4501005	Insurance Service Revenue - Insurance Acquisition Revenue	Income	Cr	300	-	-	-	
7	1101001	Bank	Asset	Dr	4	4	4	4	Investment income received
	4501003	Investment Income	Income	Cr	4	4	4	4	

**An illustration of General Measurement Model for Engineering  
Trial Balance  
For the Year 1 (from Q1 to Q4)**

Account Code	Account Code	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1		2 3	5	7	9	11	13	15	17	19	21	23
1101001	Bank	Asset	1,700	-	16	1,188	528	-	528	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	-	1,500	1,091	-	-	409	-	409	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	20	-	-	16	3	-	3	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	-	220	161	2	-	61	-	61	-	-
4501001	Insurance Service Revenue - CSM Release	Income	-	-	-	161	-	161	-	-	-	161
4501002	Insurance Service Revenue - Expected Claims - Income	Income	-	-	-	1,091	-	1,091	-	-	-	1,091
4501003	Investment Income	Income	-	-	-	16	-	16	-	-	-	16
4501005	Insurance Service Revenue - Insurance Acquisition Revenue	Income	-	-	-	300	-	300	-	-	-	300
5101005	Insurance Finance Expense - Best Estimate Liability - Discounting	Expense	-	-	16	-	16	-	-	-	16	-
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	-	-	1,188	-	1,188	-	-	-	1,188	-
5101004	Insurance Finance Expense - Interest Accretion on CSM	Expense	-	-	2	-	2	-	-	-	2	-
5101008	Insurance Service Expense - Amortization of Insurance Acquisition Cash Flows	Expense	-	-	300	-	300	-	-	-	300	-
			-	-								
3201007	Retained Earning	Equity	-	-	-	61	-	61	-	61	-	-
3201008	Profit/Loss current year	PnL	-	-	61	-	61	-	-	-	61	-
	<b>Total</b>		<b>1,720</b>	<b>1,720</b>	<b>2,836</b>	<b>2,836</b>	<b>2,099</b>	<b>2,099</b>	<b>531</b>	<b>531</b>	<b>1,568</b>	<b>1,568</b>

An illustration of General Measurement Model for Engineering  
Statement of Profit or loss and other Comprehensive Income  
For the Year 1 (from Q1 to Q4)

		<u>Reference</u>
<b>Insurance Revenue</b>	<b>1,552</b>	IAS 1.46, IAS 1.45 IAS 1.82(a)(ii), IFRS 17.83
<i>Expected Claims</i>	<i>1,091</i>	
<i>Contractual Service Margin - Released</i>	<i>161</i>	
<i>Insurance Acquisition Revenue - Systematic Allocation</i>	<i>300</i>	
<b>Insurance Service Expenses</b>	<b>(1,488)</b>	AS 1.82(ab), IFRS 17.84
<i>Claim Incurred</i>	<i>(1,188)</i>	
<i>Amortization of Insurance Acquisition Cash Flows</i>	<i>(300)</i>	
<b>Insurance services result before reinsurance contracts held</b>	<b>64</b>	
Allocation of reinsurance premiums		IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-	IFRS 17.86
<b>Net expense from reinsurance contracts held</b>	<b>-</b>	IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	<b>64</b>	IFRS 17.80(a)
<b>Investment Income</b>		
Insurance Finance Income	16	IFRS 7.20(a)(i)
<b>Insurance finance expenses for insurance contracts issued</b>	<b>(19)</b>	IAS 1.82(bb), IFRS 17.87
<i>Best Estimate Liability - Discounting</i>	<i>(16)</i>	IAS 1.82(bc), IFRS 17.82
<i>Interest Accretion on CSM</i>	<i>(2)</i>	
Reinsurance finance income for reinsurance contracts held		
<b>Net Insurance financial result</b>	<b>(3)</b>	
Other Income and expenses		
<b>Profit before tax</b>	<b>61</b>	

An illustration of General Measurement Model for Engineering  
Statement of Financial Position  
As at Dec 31,

		<u>Reference</u>
<b>Assets</b>		
Cash and cash equivalents	528	IAS 1.54(i)
Investment Income Receivable		
Debt instruments at fair value through other comprehensive income		IFRS 7.8(a)
Debt instruments at amortized cost		IFRS 7.8(h)
Insurance contract assets		IFRS 17.78(a)
Reinsurance contract assets	-	IFRS 17.78(c)
<b>Total assets</b>	<b>528</b>	
<b>Liabilities</b>		
Current tax liabilities		
Insurance contract liabilities	467	IFRS 17.78(b)
<i>CSM</i>	<i>61</i>	
<i>Fulfilment Cash Flow</i>	<i>406</i>	
<i>Risk Adjustment</i>	<i>-</i>	
<i>Liability for Incurred Claims</i>	<i>-</i>	
Deferred tax liabilities		IAS 1.56, IAS 1.54(o)
Other payables		IAS 1.55
<b>Total liabilities</b>	<b>467</b>	
<b>Equity</b>		
Issued capital		IAS
Retained earnings	61	IAS 1.54(r), IAS 1.78e
Fair value reserve		IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve		IAS 1.54(r),
<b>Total equity</b>	<b>61</b>	
<b>Total liabilities and equity</b>	<b>528</b>	

**An illustration of General Measurement Model for Engineering  
General Journal Entries  
For the Year 2 (From Q5 to Q8)**

S#	Code	Account Title (IFRS 17)	Nature of A/c	Dr / Cr	Quarter				Narration
					5	6	7	8	
					Amount in CU				
1	5101005	Insurance Finance Expense - Best Estimate Liability - Discounting	Expense	Dr	2	1	1	0	Unwinding of discount - BEL
	2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	Cr	2	1	1	0	
2	2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	150	112	82	64	Expected claim booked
	4501002	Insurance Service Revenue - Expected Claims - Income	Income	Cr	150	112	82	64	
3	5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	Dr	162	121	88	69	Claim Paid
	1101001	Bank	Asset	Cr	162	121	88	69	
4	5101004	Insurance Finance Expense - Interest Accretion on CSM	Expense	Dr	0	0	0	0	Interest accretion on CSM
	2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	Cr	0	0	0	0	
5	2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	Dr	22	17	12	10	CSM Released
	4501001	Insurance Service Revenue - CSM Release	Income	Cr	22	17	12	10	
6	1101001	Bank	Asset	Dr	4	4	4	4	Investment income received
	4501003	Investment Income	Income	Cr	4	4	4	4	

An illustration of General Measurement Model for Engineering  
Trial Balance  
For the Year 2 (From Q5 to Q8)

Account Code	Account Code	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1		2 3	5	7	9	11	13	15	17	19	21	23
1101001	Bank	Asset	528	-	16	440	104	-	104	-	-	-
2101026	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	-	409	409	-	-	-	-	-	-	-
2101027	Insurance Contract Liability - Liability for Remaining Coverage - Discount	Liability	3	-	-	3	-	-	-	-	-	-
2101028	Insurance Contract Liability - Liability for Remaining Coverage - Contractual Service Margin	Liability	-	61	61	0	-	-	-	-	-	-
4501001	Insurance Service Revenue - CSM Release	Income	-	-	-	61	-	61	-	-	-	61
4501002	Insurance Service Revenue - Expected Claims - Income	Income	-	-	-	409	-	409	-	-	-	409
4501003	Investment Income	Income	-	-	-	16	-	16	-	-	-	16
4501005	Insurance Service Revenue - Insurance Acquisition Revenue	Income	-	-	-	-	-	-	-	-	-	-
5101005	Insurance Finance Expense - Best Estimate Liability - Discounting	Expense	-	-	3	-	3	-	-	-	3	-
5101004	Insurance Finance Expense - Interest Accretion on CSM	Expense	-	-	0	-	0	-	-	-	0	-
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	-	-	440	-	440	-	-	-	440	-
5101008	Insurance Service Expense - Amortization of Insurance Acquisition Cash Flows	Expense	-	-	-	-	-	-	-	-	-	-
3201007	Retained Earning	Equity	-	61	-	43	-	104	-	104	-	-
3201008	Profit/Loss current year	PnL	-	-	43	-	43	-	-	-	43	-
	<b>Total</b>		<b>531</b>	<b>531</b>	<b>974</b>	<b>974</b>	<b>591</b>	<b>591</b>	<b>104</b>	<b>104</b>	<b>487</b>	<b>487</b>

An illustration of General Measurement Model for Engineering  
Statement of Profit or loss and other Comprehensive Income  
For the Year 2 (From Q5 to Q8)

		<u>Reference</u>
<b>Insurance Revenue</b>	<b>471</b>	IAS 1.46, IAS 1.45
<i>Expected Claims</i>	409	IAS 1.82(a)(ii), IFRS 17.83
<i>Contractual Service Margin - Released</i>	61	
<i>Insurance Acquisition Revenue - Systematic Allocation</i>	-	
<b>Insurance Service Expenses</b>	<b>(440)</b>	AS 1.82(ab), IFRS 17.84
<i>Claim Incurred</i>	(440)	
<i>Amortization of Insurance Acquisition Cash Flows</i>	-	
<b>Insurance services result before reinsurance contracts held</b>	<b>31</b>	
Allocation of reinsurance premiums		IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-	IFRS 17.86
<b>Net expense from reinsurance contracts held</b>	<b>-</b>	IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	<b>31</b>	IFRS 17.80(a)
<b>Investment Income</b>		
Insurance Finance Income	16	IFRS 7.20(a)(i)
<b>Insurance finance expenses for insurance contracts issued</b>	<b>(4)</b>	IAS 1.82(bb), IFRS 17.87
<i>Best Estimate Liability - Discounting</i>	(3)	IAS 1.82(bc), IFRS 17.82
<i>Interest Accretion on CSM</i>	(0)	
Reinsurance finance income for reinsurance contracts held		
<b>Net Insurance financial result</b>	<b>12</b>	
Other Income and expenses		
<b>Profit before tax</b>	<b>43</b>	

An illustration of General Measurement Model for Engineering  
Statement of Financial Position  
As at Dec 31,

		<u>Reference</u>
<b>Assets</b>		
Cash and cash equivalents	104	IAS 1.54(i)
Investment Income Receivable		
Debt instruments at fair value through other comprehensive income		IFRS 7.8(a)
Debt instruments at amortized cost		IFRS 7.8(h)
Insurance contract assets		IFRS 17.78(a)
Reinsurance contract assets	-	IFRS 17.78(c)
<b>Total assets</b>	<b>104</b>	
<b>Liabilities</b>		
Current tax liabilities		
Insurance contract liabilities	-	IFRS 17.78(b)
<i>CSM</i>	-	
<i>Fulfilment Cash Flow</i>	-	
<i>Risk Adjustment</i>	-	
<i>Liability for Incurred Claims</i>	-	
Deferred tax liabilities		IAS 1.56, IAS 1.54(o)
Other payables		IAS 1.55
<b>Total liabilities</b>	<b>-</b>	
<b>Equity</b>		
Issued capital		IAS
Retained earnings	104	IAS 1.54(r), IAS 1.78e
Fair value reserve		IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve		IAS 1.54(r),
<b>Total equity</b>	<b>104</b>	
<b>Total liabilities and equity</b>	<b>104</b>	

	Quarter							
	1	2	3	4	5	6	7	8
Opening Balance		1487	1148	722	466	296	168	74
Premium	2000							
Acquisition Cost	-300							
Interest	6	6	4	3	2	1	1	0
Acquisition Cost - Amortization	-	-	-	-	-	-	-	-
Revenue	(217)	(343)	(430)	(259)	(173)	(130)	(96)	(75)
<b>Closing Balance</b>	<b>1,489</b>	<b>1,153</b>	<b>727</b>	<b>471</b>	<b>300</b>	<b>170</b>	<b>75</b>	<b>-</b>

## Premium Allocation Approach

## PAA Model – Income Statement

	Quarter								Total
	1	2	3	4	5	6	7	8	
Insurance service Revenue									
Earned Premium	217	343	430	259	173	130	96	75	1,723
<b>Total Insurance Service Revenue</b>	<b>217</b>	<b>343</b>	<b>430</b>	<b>259</b>	<b>173</b>	<b>130</b>	<b>96</b>	<b>75</b>	<b>1,723</b>
Insurance Service Expenses									
Claims Incurred	(209)	(328)	(408)	(244)	(162)	(121)	(88)	(69)	(1,628)
Expenses management									-
Amortization of acq. cost	-	-	-	-	-	-	-	-	-
<b>Total Insurance Service Expenses</b>	<b>(209)</b>	<b>(328)</b>	<b>(408)</b>	<b>(244)</b>	<b>(162)</b>	<b>(121)</b>	<b>(88)</b>	<b>(69)</b>	<b>(1,628)</b>
Net Insurance Service Result	8	15	22	15	11	9	8	6	94
Investment Income	4	4	4	4	4	4	4	4	32
Finance Expense	(6)	(6)	(4)	(3)	(2)	(1)	(1)	(0)	(23)
<b>Net Insurance Finance Expense</b>	<b>(2)</b>	<b>(2)</b>	<b>(0)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>9</b>
<b>Profit or Loss (Under PAA)</b>	<b>6</b>	<b>13</b>	<b>22</b>	<b>16</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>10</b>	<b>104</b>
<i>For comparison purpose only:</i>									
<b>Profit or Loss (Under GMM)</b>	<b>7</b>	<b>15</b>	<b>22</b>	<b>16</b>	<b>13</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>104</b>

Example - An illustration of PAA Model for Engineering  
 General Journal Entries  
 For the Year 1 (from Q1 to Q4)

S#	Code	Account Title (IFRS 17)	Nature of A/c	Dr / Cr	Quarter				Narration
					1	2	3	4	
					Amount in CU				
1	1101001	Bank	Asset	Dr	2,000				Booked receiving of Insurance Premium before inception of policy.
	2211001	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Cr	2,000				
2	2211001	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	300				Insurance Acquisition Cost Paid
	1101001	Bank	Asset	Cr	300				
3	2211001	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	216	340	425	255	Insurance Service Revenue recognized for the period (without interest accretion)
	4106001	Insurance Service Revenue	Income	Cr	216	340	425	255	
4	5116001	Insurance Finance Expense - Interest Accretion on LRC	Expense	Dr	6	6	4	3	Interest Accreted on UPR
	2106001	Insurance Contract Liability - Liability for Remaining Coverage - Interest Accretion on LRC	Liability	Cr	6	6	4	3	
5	5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	Dr	209	328	408	244	Claim Paid
	1101001	Bank	Asset	Cr	209	328	408	244	
6	1101001	Bank	Asset	Dr	4	4	4	4	Investment income received
	4501003	Investment Income	Income	Cr	4	4	4	4	
7	2106001	Insurance Contract Liability - Liability for Remaining Coverage - Interest Accretion on LRC	Liability	Dr	1	3	5	4	Insurance Service Revenue recognized for the period (only interest accretion)
	4501004	Insurance Service Revenue - Interest Accretion on LRC	Income	Cr	1	3	5	4	

**Example - An illustration of PAA Model for Engineering  
Trial Balance  
For the Year 1 (from Q1 to Q4)**

Account Code	Account Code	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1101001	Bank	Asset			2,016	1,488	528	-	528	-	-	-
2106001	Insurance Contract Liability - Liability for Remaining Coverage - Interest Accretion on LRC	Liability			12	19	-	7	-	7	-	-
2211001	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability			1,536	2,000	-	464	-	464	-	-
4106001	Insurance Service Revenue	Income			-	1,236	-	1,236	-	-	-	1,236
4501003	Investment Income	Income			-	16	-	16	-	-	-	16
4501004	Insurance Service Revenue - Interest Accretion on LRC	Income			-	12	-	12	-	-	-	12
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense			1,188	-	1,188	-	-	-	1,188	-
5116001	Insurance Finance Expense - Interest Accretion on LRC	Expense			19	-	19	-	-	-	19	-
3201007	Retained Earning	Equity	-	-	-	57	-	57	-	57	-	-
3201008	Profit/Loss current year	PnL	-	-	57	-	57	-	-	-	57	-
	<b>Total</b>		<b>-</b>	<b>-</b>	<b>4,828</b>	<b>4,828</b>	<b>1,792</b>	<b>1,792</b>	<b>528</b>	<b>528</b>	<b>1,264</b>	<b>1,264</b>

**Example - An illustration of PAA Model for Engineering  
Statement of Profit or loss and other Comprehensive Income  
For the Year 1 (from Q1 to Q4)**

		<u>Reference</u>
<b>Insurance Revenue</b>	<b>1,248</b>	IAS 1.46, IAS 1.45
<i>Insurance Service Revenue</i>	<span style="border: 1px solid black;">1,236</span>	IAS 1.82(a)(ii), IFRS 17.83
<i>Insurance Service Revenue - Interest Accretion on LRC</i>	<span style="border: 1px solid black;">12</span>	
<b>Insurance Service Expenses</b>	<b>(1,188)</b>	AS 1.82(ab), IFRS 17.84
<i>Claim Incurred</i>	<span style="border: 1px solid black;">(1,188)</span>	
<b>Insurance services result before reinsurance contracts held</b>	<b>60</b>	
Allocation of reinsurance premiums		IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-	IFRS 17.86
<b>Net expense from reinsurance contracts held</b>	<b>-</b>	IAS 1.82(ac), IFRS 17.82
<b>Insurance service result</b>	<b>60</b>	IFRS 17.80(a)
<b>Investment Income</b>		
Insurance Finance Income	16	IFRS 7.20(a)(i)
<b>Insurance finance expenses for insurance contracts issued</b>	<b>(19)</b>	IAS 1.82(bb), IFRS 17.87
<i>Interest Accretion on LRC</i>	<span style="border: 1px solid black;">(19)</span>	IAS 1.82(bc), IFRS 17.82
Reinsurance finance income for reinsurance contracts held		
<b>Net Insurance financial result</b>	<b>(3)</b>	
Other Income and expenses		
<b>Profit before tax</b>	<b>57</b>	

**Example - An illustration of PAA Model for Engineering  
Statement of Financial Position  
As at Dec 31,**

		<u>Reference</u>
<b>Assets</b>		
Cash and cash equivalents	528	IAS 1.54(i)
Investment Income Receivable		
Debt instruments at fair value through other comprehensive income		IFRS 7.8(a)
Debt instruments at amortized cost		IFRS 7.8(h)
Insurance contract assets		IFRS 17.78(a)
Reinsurance contract assets	-	IFRS 17.78(c)
<b>Total assets</b>	<b>528</b>	
<b>Liabilities</b>		
Current tax liabilities		
Insurance contract liabilities	471	IFRS 17.78(b)
<i>Liability for Remaining Coverage - Best Estimate Liability</i>	<span style="border: 1px solid black;">464</span>	
<i>Liability for Remaining Coverage - Interest Accretion on LRC</i>	<span style="border: 1px solid black;">7</span>	
<i>Risk Adjustment</i>	-	
<i>Liability for Incurred Claims</i>	<span style="border: 1px solid black;">-</span>	
Deferred tax liabilities		IAS 1.56, IAS 1.54(o)
Other payables		IAS 1.55
<b>Total liabilities</b>	<b>471</b>	
<b>Equity</b>		
Issued capital		IAS
Retained earnings	57	IAS 1.54(r), IAS 1.78e
Fair value reserve		IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve		IAS 1.54(r),
<b>Total equity</b>	<b>57</b>	
<b>Total liabilities and equity</b>	<b>528</b>	

**Example - An illustration of PAA Model for Engineering  
General Journal Entries  
For the Year 2**

S#	Code	Account Title (IFRS 17)	Nature of A/c	Dr / Cr	Quarter				Narration
					5	6	7	8	
					Amount in CU				
1	2211001	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	Dr	170	127	93	73	Insurance Service Revenue recognized for the period (without interest accretion)
	4106001	Insurance Service Revenue	Income	Cr	170	127	93	73	
2	5116001	Insurance Finance Expense - Interest Accretion on LRC	Expense	Dr	2	1	1	0	Interest Accreted on UPR
	2106001	Insurance Contract Liability - Liability for Remaining Coverage - Interest Accretion on LRC	Liability	Cr	2	1	1	0	
3	5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	Dr	162	121	88	69	Claim Paid
	1101001	Bank	Asset	Cr	162	121	88	69	
4	1101001	Bank	Asset	Dr	4	4	4	4	Investment income received
	4501003	Investment Income	Income	Cr	4	4	4	4	
5	2106001	Insurance Contract Liability - Liability for Remaining Coverage - Interest Accretion on LRC	Liability	Dr	3	3	2	2	Insurance Service Revenue recognized for the period (only interest accretion)
	4501004	Insurance Service Revenue - Interest Accretion on LRC	Income	Cr	3	3	2	2	

**Example - An illustration of PAA Model for Engineering  
Trial Balance  
For the Year 2**

Account Code	Account Code	Nature of A/c	Opening Balance		Period Transactions		Closing Balance		Balance Sheet		PnL	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1101001	Bank	Asset	528	-	16	440	104	-	104	-	-	-
2106001	Insurance Contract Liability - Liability for Remaining Coverage - Interest Accretion on LRC	Liability	-	7	11	4	-	-	-	-	-	-
2211001	Insurance Contract Liability - Liability for Remaining Coverage - Best Estimate Liability	Liability	-	464	464	-	-	-	-	-	-	-
4106001	Insurance Service Revenue	Income	-	-	-	464	-	464	-	-	-	464
4501003	Investment Income	Income	-	-	-	16	-	16	-	-	-	16
4501004	Insurance Service Revenue - Interest Accretion on LRC	Income	-	-	-	11	-	11	-	-	-	11
5101002	Insurance Service Expense - Claim Incurred - Expense	Expense	-	-	440	-	440	-	-	-	440	-
5116001	Insurance Finance Expense - Interest Accretion on LRC	Expense	-	-	4	-	4	-	-	-	4	-
3201007	Retained Earning	Equity	-	57	-	47	-	104	-	104	-	-
3201008	Profit/Loss current year	PnL	-	-	47	-	47	-	-	-	47	-
	<b>Total</b>		<b>528</b>	<b>528</b>	<b>982</b>	<b>982</b>	<b>595</b>	<b>595</b>	<b>104</b>	<b>104</b>	<b>491</b>	<b>491</b>

**Example - An illustration of PAA Model for Engineering  
Statement of Profit or loss and other Comprehensive Income  
For the Year 2**

	<b>Reference</b>
<b>Insurance Revenue</b>	<b>475</b>
<i>Insurance Service Revenue</i>	464
<i>Insurance Service Revenue - Interest Accretion on LRC</i>	11
<b>Insurance Service Expenses</b>	<b>(440)</b>
<i>Claim Incurred</i>	(440)
<b>Insurance services result before reinsurance contracts held</b>	<b>35</b>
Allocation of reinsurance premiums	IFRS 17.86
Amounts recoverable from reinsurers for incurred claims	-
<b>Net expense from reinsurance contracts held</b>	<b>-</b>
<b>Insurance service result</b>	<b>35</b>
<b>Investment Income</b>	
Insurance Finance Income	16
<b>Insurance finance expenses for insurance contracts issued</b>	<b>(4)</b>
<i>Interest Accretion on LRC</i>	(4)
Reinsurance finance income for reinsurance contracts held	
<b>Net Insurance financial result</b>	<b>12</b>
Other Income and expenses	
<b>Profit before tax</b>	<b>47</b>

**Example - An illustration of PAA Model for Engineering  
Statement of Financial Position  
As at Dec 31,**

	<b>Reference</b>
<b>Assets</b>	
Cash and cash equivalents	104
Investment Income Receivable	
Debt instruments at fair value through other comprehensive income	IFRS 7.8(a)
Debt instruments at amortized cost	IFRS 7.8(h)
Insurance contract assets	IFRS 17.78(a)
Reinsurance contract assets	-
<b>Total assets</b>	<b>104</b>
<b>Liabilities</b>	
Current tax liabilities	
Insurance contract liabilities	-
<i>Liability for Remaining Coverage - Best Estimate Liability</i>	-
<i>Liability for Remaining Coverage - Interest Accretion on LRC</i>	-
<i>Risk Adjustment</i>	-
<i>Liability for Incurred Claims</i>	-
Deferred tax liabilities	IAS 1.56, IAS 1.54(o)
Other payables	IAS 1.55
<b>Total liabilities</b>	<b>-</b>
<b>Equity</b>	
Issued capital	IAS 1.54(r), IAS 1.78(e)
Retained earnings	104
Fair value reserve	IAS 1.54(r), IAS 1.78e
Insurance/reinsurance finance reserve	IAS 1.54(r),
<b>Total equity</b>	<b>104</b>
<b>Total liabilities and equity</b>	<b>104</b>

# Impact on Non-life Insurers – Actuarial, Accounting and IT Areas

# Impact on Actuarial Area

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Non-life insurers are expected to face certain changes and challenges in the actuarial area as well

Usually, non-life contracts are short term and the measurement does not involve projection of cash flows

However, in case of IFRS-17 the non-life companies will also have to project cash flows in case of GMM application or loss making PAA contracts

Generally, the nature of liabilities for PAA contracts, even in the case of loss making contracts, will remain similar for non-life insurers

For long-term GMM types portfolios, the company will have to hold the FCF and CSM as well.

In FCF, there will be a best estimate liability and risk adjustment which will bring in a buffer for non-financial risk

A CSM will also be calculated and held as a separate liability. This represents the unearned profit on the group of contract under consideration

# Impact on Actuarial Area

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CSM for non-life contracts measured under GMM will be calculated and tracked in the IFRS-17 engine

However, the order of CSM modification and the release will have to be supplied as an input to the tool which will be the responsibility of the actuarial department

Apart from that, risk adjustment will also be a fairly new component which will be handled by the actuarial department

Several methodologies exist for developing LRC risk adjustment under the GMM model such as cost of capital, quantile approach or a simple factor approach

However, each approach requires setting of assumptions, capital amounts and diversification principles as well

Therefore, the risk adjustment will be another component requiring more input from the actuarial department of the company

# Impact on Actuarial Area

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In addition, the risk adjustment and discounting on LIC will be a significant change in the actuarial calculations

Generally, the claim reserves are not discounted and as mentioned earlier, the risk adjustment is an entirely new component to be handled by the actuarial department

For LIC, the risk adjustment is measured via the Mack Method or bootstrapping. The details of these methods are beyond the scope of this session but these methods require a considerable change in methodology

Generally, the involvement of actuarial department is expected to increase for non-life insurers where GMM type contracts exist

This is because of the insurance service revenue being based exclusively on actuarially generated items such as expected claims and expenses, release in CSM and risk adjustment as well as amortization of acquisition cost

# Impact on Actuarial Area

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The release in CSM is one of the greatest driver of Insurance Service Revenue (the top line) for life insurers

Apart from that, the release in loss component also impacts the ISR and Insurance Service Expense as well

In addition, new requirements, such as profitability tagging, will also require input from the actuarial department

Another area of impact, which may not affect life insurers considerably is the granularity of the calculations. Although IFRS-17 requires calculation at a GOC level, higher level of granularity may be used (such as policy level which is common for life insurance policies)

# Impact on Accounting Areas

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IFRS-17 being an accounting standard impacts the accounting areas the most

For non-life insurers, some portion of the business may lead to creation of a CSM. This requires modification of the accounting entries to incorporate the movement of CSM

For PAA type contracts, the changes will be minimal but still certain changes are required

For instance, the deficiency reserves and their movement will be replaced by a loss component that will be released based on a coverage unit

For GMM type contracts, a complete overhaul of the accounting entries pertaining to the P&L will be observed. Premiums will no longer be the top line for most long-term life business

The implementation of IFRS-17 will not change the profitability of the underlying contracts issued but will change the nature with which it is recorded

Finally, on face of the balance sheet, the assets and liabilities will be reorganized with Insurance Contract Asset and Liabilities being the major heads

# Impact on Accounting Areas

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Issuance year requirement for level of aggregation will require the new sub-ledgers to be established every year

Even for same product but with different levels of profitability, separate sub-ledgers would be required in an accounting system

Portfolio level modifications may not be significant depending on the Company's accounting system capabilities

The company will have to develop a process for this regular update to the chart of accounts

# Impact on IT Areas

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IT is the bridge between various departments in insurance companies. Finance, Actuarial and Accounting is linked via IT

Current systems are designed to optimize things for IFRS-4 standard. The implementation of the new standard will require modification of the existing systems

For non-life insurers, the profitability tags will be most likely determined by the underwriting committees owing to the fact that most of the business may be measured under PAA

Nevertheless, the database will have to be modified for extra variables such as the level of aggregation tags and extra liability amounts

Finally, the IFRS-17 engines generally require inputs in a particular format. Therefore, the IT framework will have to be modified to contain a staging area to manipulate and validate the data

# Impact on IT Areas

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Staging area will not be very critical for the non-life insurers due to the nature of the liability CFs being simpler

However, an IT framework will be required to assess the validity of the actuarial output, mold it into the input format of the engine and extract that input as well

The validation module will contain several data validation rules. Here, the data means output from the actuarial models

The validation rules may include, the comparison of the total premiums and the inception LRC liability. In addition, a rule may be added to assess the impact of discounting and risk adjustment as well

Any formatting of the actuarial data before it is input into the IFRS-17 engine will also be done in the staging area

The data consolidation area will have an important function for non-life insurers, to hold a repository for the assumptions. Generally, the IFRS-17 engines have the ability to hold the interest rates required for locked-in discounting, other assumptions will be held here

# Impact on IT Areas

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From this consolidation area, the data will be extracted and input into the IFRS-17 engine

For non-life insurers, an option may exist to take the entire LRC liability as an external calculation completely (especially for PAA type contracts)

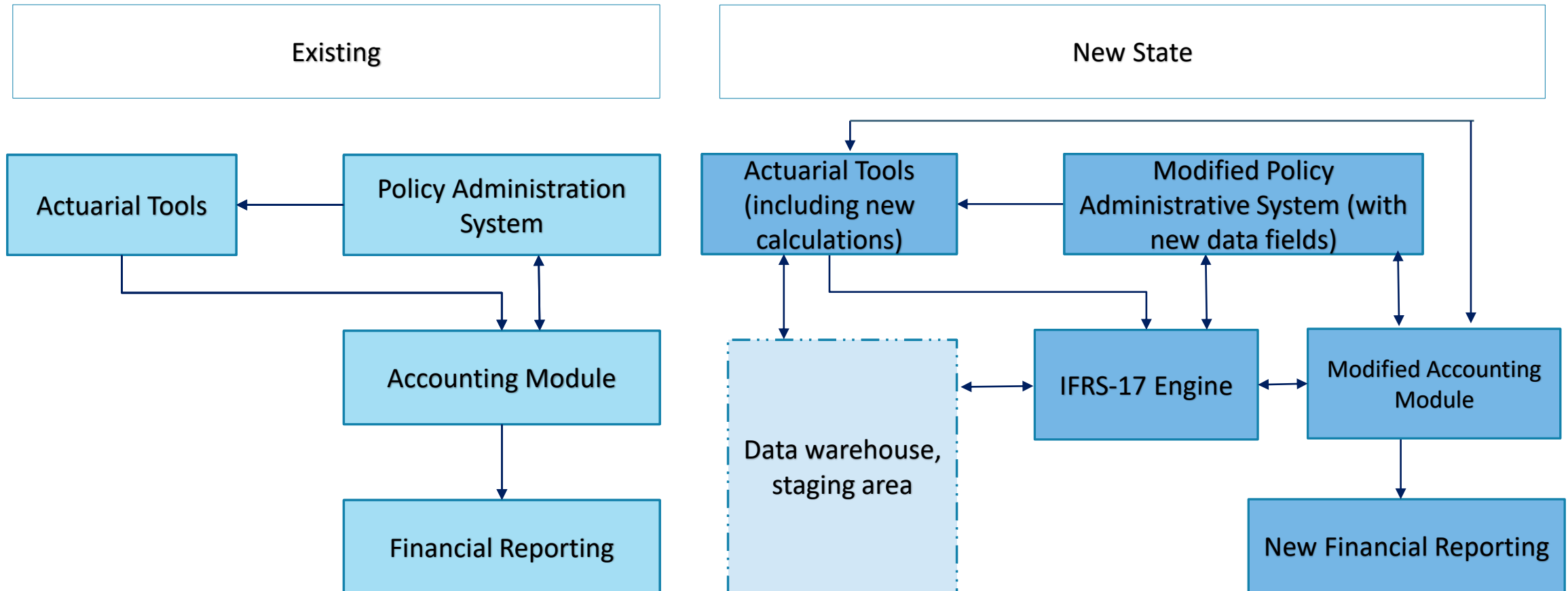
For LIC, however, the calculation and entries are handled in the IFRS-17 engine as a common practice

In either case, the entries from the IFRS-17 engine will be merged with the current non-insurance (assets or other business not in IFRS-17) trial balance

Thus, the IT will have an impact from this area as well. As before, the system will be a breathing component starting from underwriting to the generation of accounting entries and financial reporting

The comparative structure of the IT system is shown below:

# Existing State Vs. IFRS 17



# Conclusion

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To sum up, extensive training will be required for the actuarial, accounting and IT departments of the company

The natural starting point will be the actuarial department since the change in various actuarial items will have to be carried out before the accounting for these items is created

Following that, the accounting teams and IT teams can be involved

It should, however, be ensured that all the teams are involved in the project since one area is not wholly responsible/capable for the entire project

Overall, training along with necessary system changes will be required to ensure the smooth transition to IFRS-17

# Major Transformation

Key Considerations in implementation



# Impact of IFRS 17

- new era of accounting for insurance contracts
- sets out principles-based requirements that aim to:
  - improve comparability of measurement and presentation of insurance contracts across entities reporting in jurisdictions applying International Financial Reporting Standards (IFRS)
- biggest change to insurance-related accounting standards in more than a decade.
- goes far beyond financial reporting to also encompass:
  - actuarial valuation,
  - asset liability management and
  - risk management.
- The impact and requirements of IFRS 17 will be felt across virtually every part of the insurance organization.

# Impact of IFRS 17 *(Contd..)*

- will also be a significant change for the workforce.
- massive workforce challenges that will arise during the 'transition years'.
- Parallel processes and reporting will need to be conducted and reconciled.
- Stakeholders will need to be informed and updated.
- New processes will need to be tested and tweaked.
- Compliance and audit procedures will need to be performed.
- And, all the while, business will need to go on as usual.

# Impact of IFRS 17

- will require organizations to ensure:
  - data governance,
  - lineage and
  - transparency

across the entire reporting chain.

- This includes a wide spectrum of data that will be used,
- from historic or current data (e.g. policy and premium data or data to produce the risk adjustment) to
- forward-looking data (e.g. data used to produce cash flow projections).

# What may change under IFRS 17?

Significant financial and operational changes under IFRS 17



# Challenges

# Challenges already identified by early IFRS 17 movers

Financial and operational implications of adoption will vary by insurer and operations within.

Areas already identified by early IFRS 17 movers include the following:

- Length of implementation project required
- Challenges to year end reporting timetables
- Data collection and storage
- System implications across wider Group and local function
- Lack of knowledge and lack of certainty over interpretation
- Resource planning
- Other areas of the business will be impacted such as product design, remuneration, policies and business planning.
- Managing market expectations before and after adoption will be crucial
- Informing policy choices and options

# Likely challenges

- Increased complexity
  - will require management to make technical decisions and judgements which may have a material impact on financial reporting
- Diverse range of approaches and outcomes
  - principles-based requirements and does not prescribe specific detailed methods.
  - Selecting appropriate techniques and developing estimates will involve a high degree of management judgement, and methods may vary between preparers.
  - It is important that there is strong governance over the way judgement is exercised.

# Likely challenges *(Contd..)*

- Time and effort to implement
  - range of consequences for the design and use of technology and systems, and the role of actuaries and other specialists.
  - will introduce considerably more estimates and judgement into the preparation of financial statements and change the shape and content of financial reporting for insurers.
  - Implementation programmes may be large, complex and expensive

# Disruption or opportunity

# IFRS 17 implementation project represents

- opportunity for most companies in terms of financial transformation
- more closely resembles an information technology (IT) system project rather than a technical project that considers accounting interpretations.
- implementation process requires close communication and collaboration among finance, actuarial, and IT staff.
- From the initial planning stage to the system go-live, the overall commitment, skills and competency requirements of IT staff will continuously increase
- roles of actuarial and finance staff will gradually shift from leading the work of standards interpretation and technical solutions to supporting and assisting with system implementation.

# Depending on:

- size of the company,
- the complexity of the business,
- the current state of data and systems, and
- whether there are multiple reporting requirements

overall implementation efforts will vary—but it is expected that companies will continue to invest a considerable amount of resources in the implementation and testing of the systems.

# Transformation

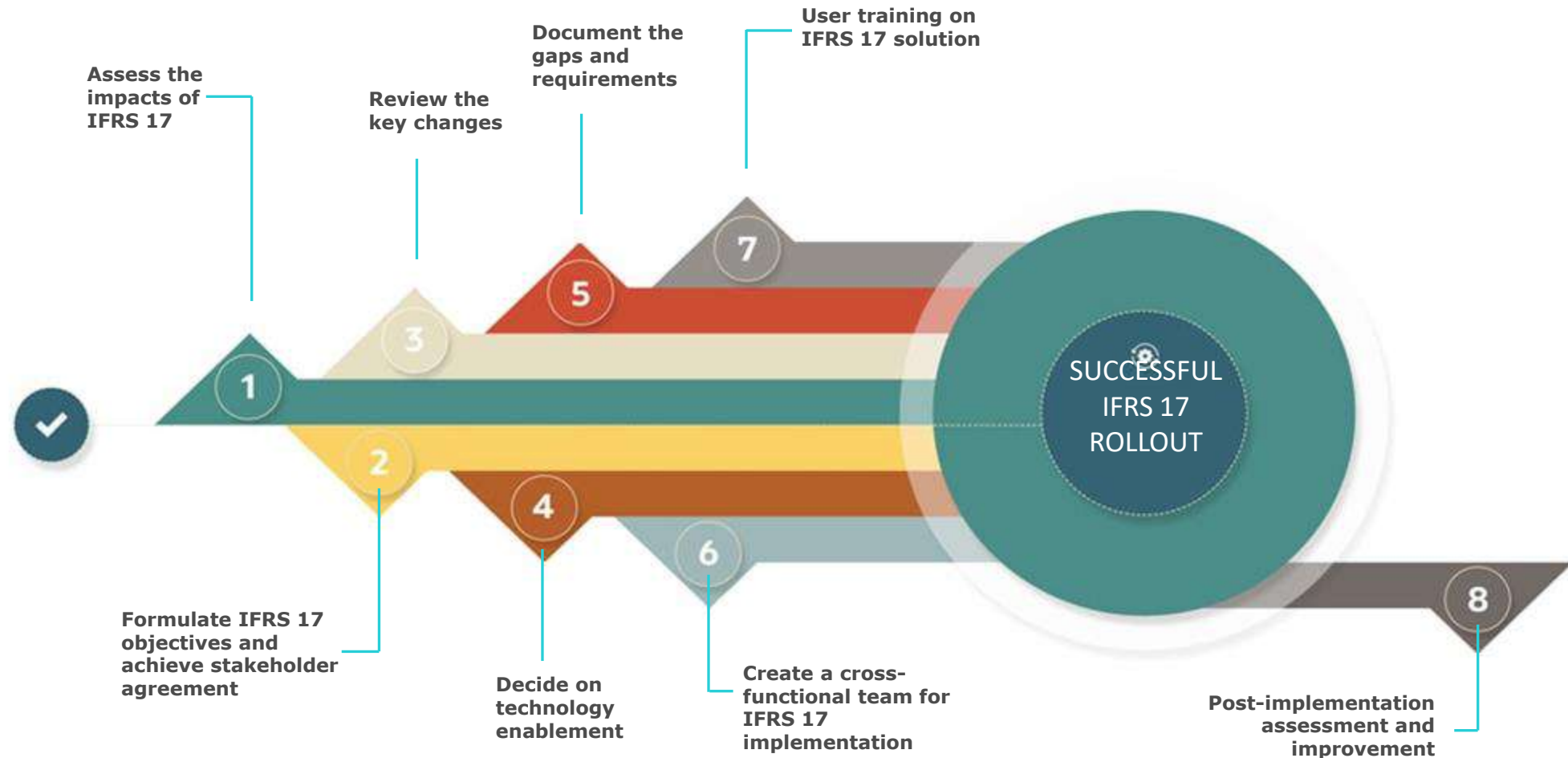
- Explore opportunities to automate new processes
- Identify other (possibly longer-term) opportunities to incorporate digital workers into their employee mix.
- Breaking down organizational silos
- Develop next generation of business leaders
- Create a common language
- Explore new models of delivering service
- Develop new skills and capabilities

# Transformation Accelerator

- Create a robust IFRS 17 implementation roadmap that spans the enterprise and takes into account people, process and technology implications.
- Find opportunities to leverage automation to support the organization through the IFRS 17 transition period and beyond.
- Identify the skills you will need in the future and consider how you might partner, develop or acquire the right capabilities to manage the full IFRS 17 implementation.
- Explore new models that might reduce the strain on existing employees in the short term while setting the business up for increased flexibility in the long term.
- Use the transition as an opportunity to increase collaboration across functions and develop top talent for future leadership roles.

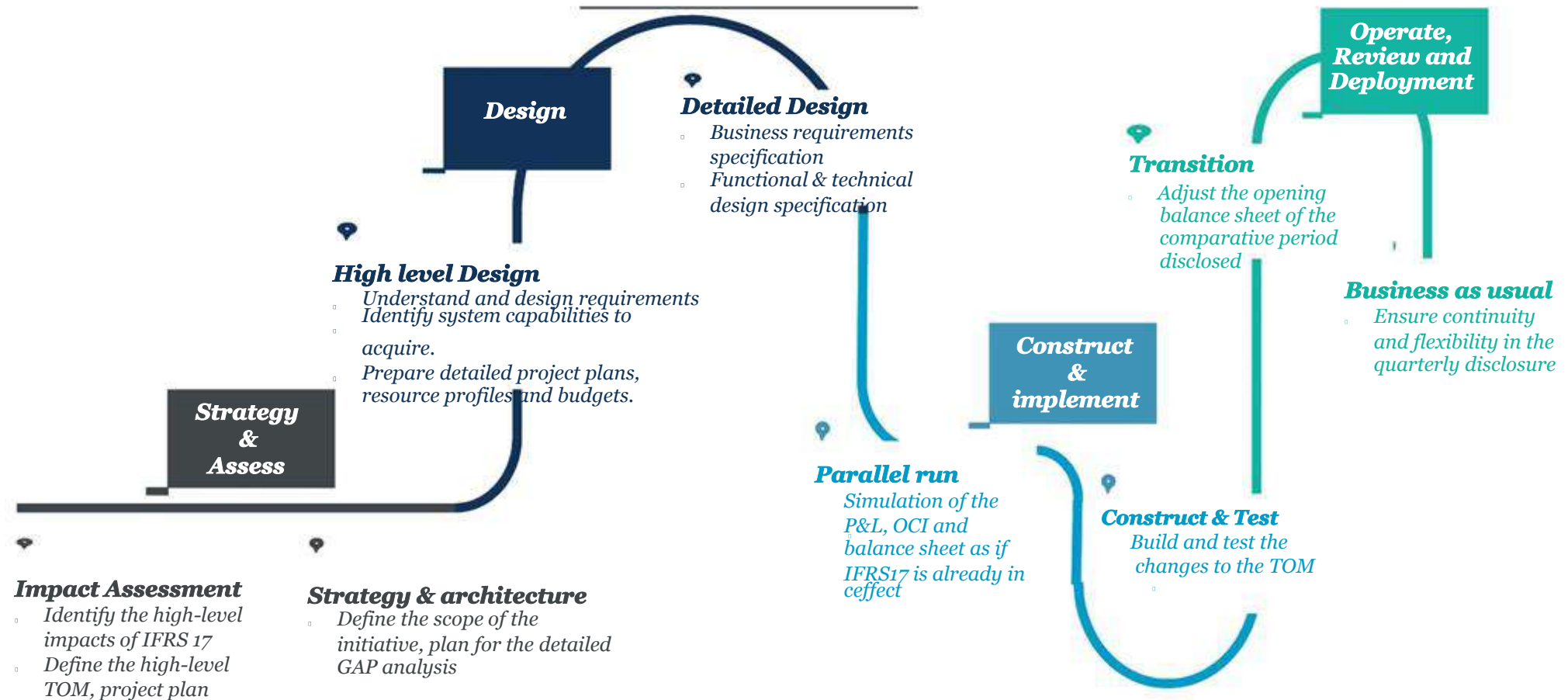
# **Kick starting IFRS 17 implementation project**

# Tentative steps to kick start IFRS 17 implementation



# Roadmap and implementation plan for IFRS programs

Key phases and activities from a business architecture perspective:



# Ten key actions to kickstart IFRS 17 implementation

## Impact assessment

- Understand IFRS 17 requirements
  - Clarifying objective of IFRS adoption
- Perform gap analysis (using pre-populated templates where possible)

# Ten key actions to kickstart IFRS 17 implementation *(Contd..)*

## Impact assessment

- Conduct impact assessments around architecture, data, systems and processes.
  - important to review data management capabilities at the enterprise level including:
    - end-to-end data architecture and flow (e.g. source, master and reference data once for multiple uses)
    - data governance process and policies (e.g. access controls and ownership), and
    - Target Operating Model (e.g. chief data office and interaction model) to “manage data as an asset”.
  - This will help define target-state data architecture to meet IFRS 17 Standard and company’s strategic direction in data management.

# Ten key actions to kickstart IFRS 17 implementation *(Contd..)*

## Stakeholder engagement

Imperative that IFRS 17 objectives are clearly formulated and agreed upon by all the stakeholders.

- Conduct business and technology briefing sessions
- Report findings and implementation approach to Board, executive team and key stakeholders
- Discuss findings with external auditor and regulators
- Seek approval for next Design phase

# Ten key actions to kickstart IFRS 17 implementation *(Contd..)*

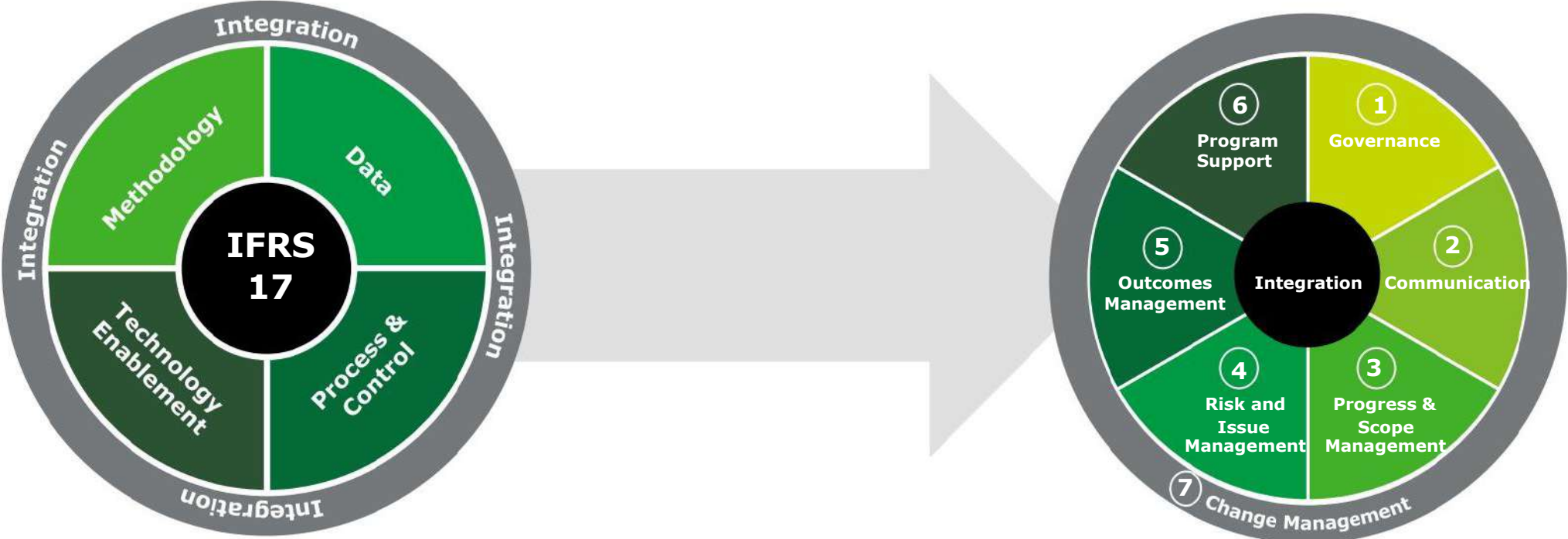
## Implementation (8–10)

- Mobilize project resources and key internal and external stakeholders
- Provide core team training
- Develop implementation roadmap and budget
  - Create solution for issues recognized
  - Understand differences due to adoption of new standard
  - Consider accounting treatment, develop policies, designate collection method for disclosure information

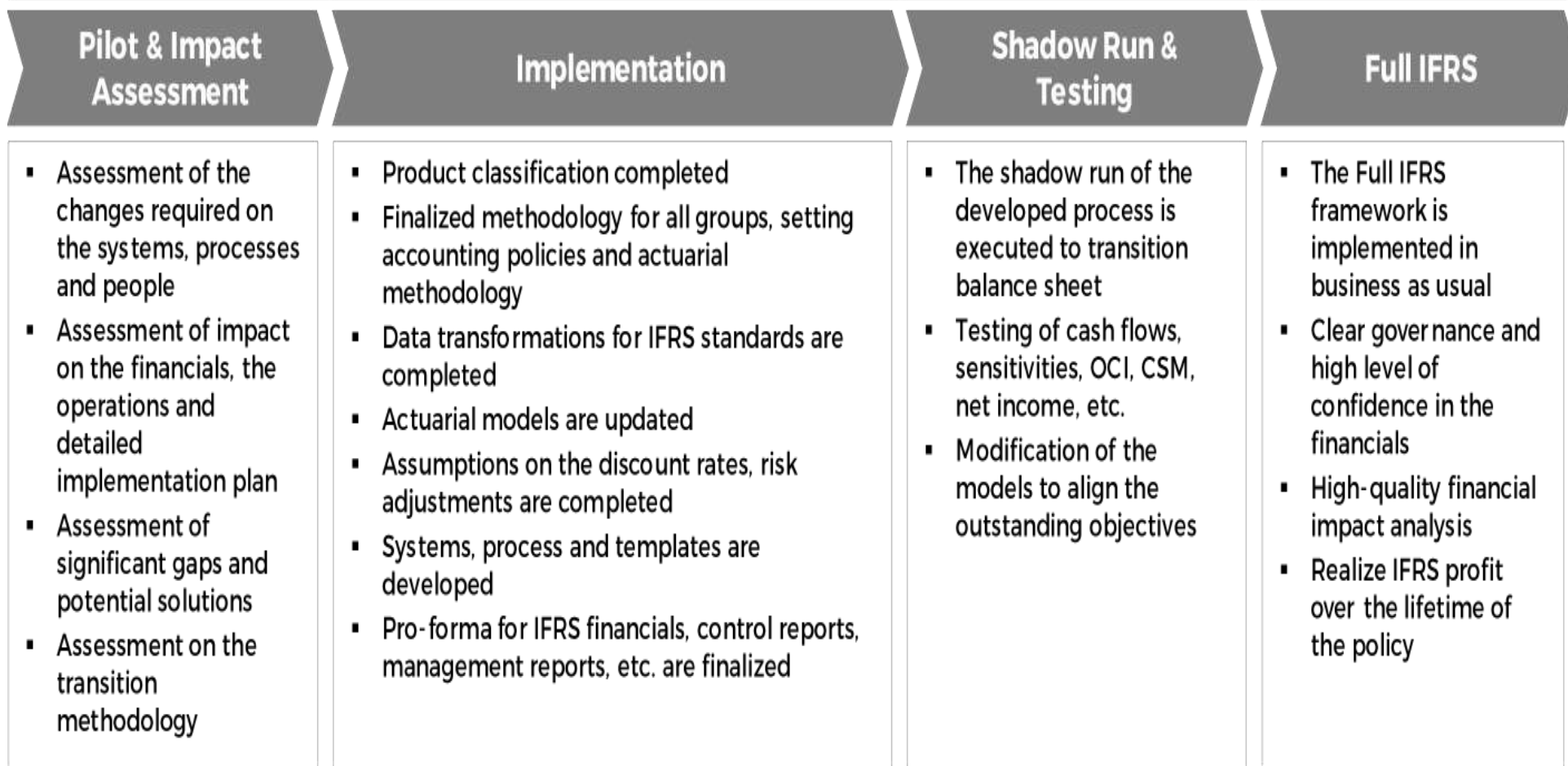
# IFRS 17 Implementation - Integration of a Multi-Disciplinary Team

Strategically bringing together the entire IFRS 17 implementation program

**A strong project management team is the glue that holds together the overall IFRS 17 implementation program**



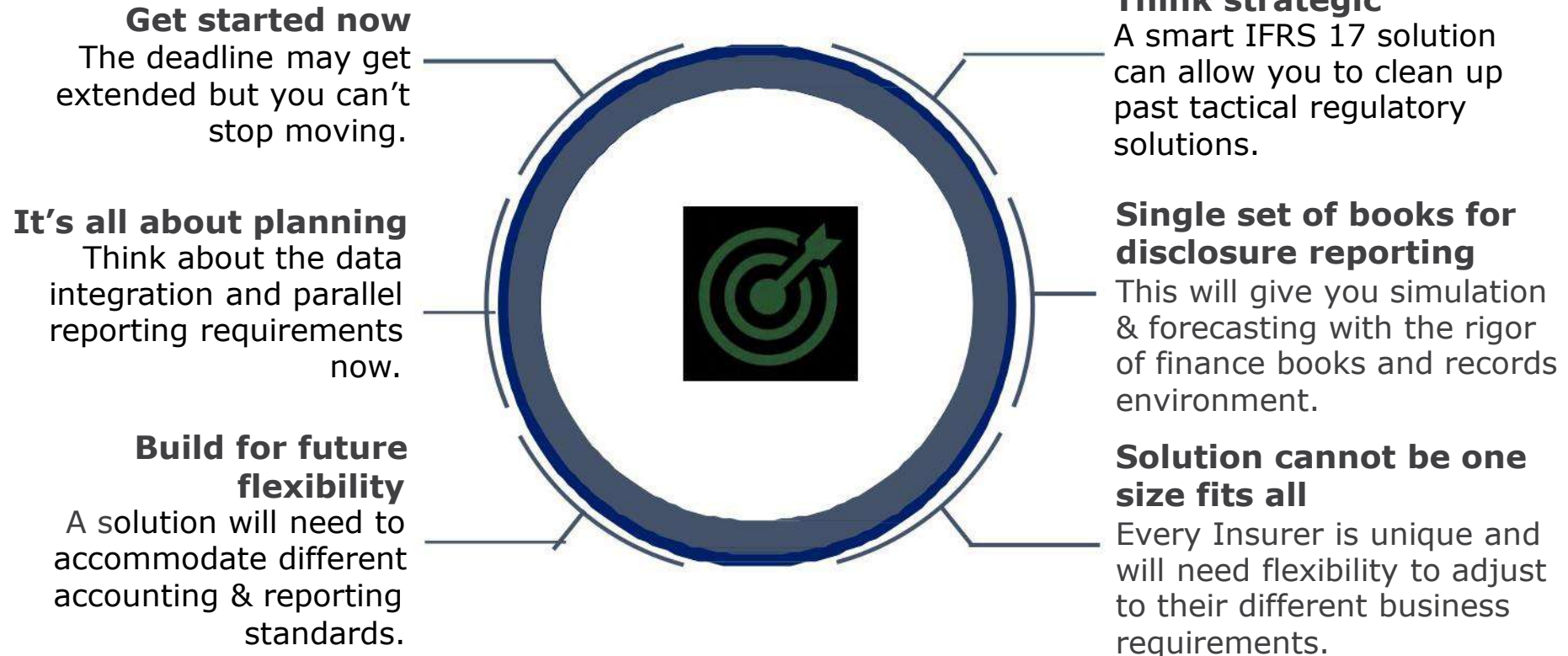
# IFRS 17 Road Map



# IFRS 17 Implementation - Ensuring the Best Outcome

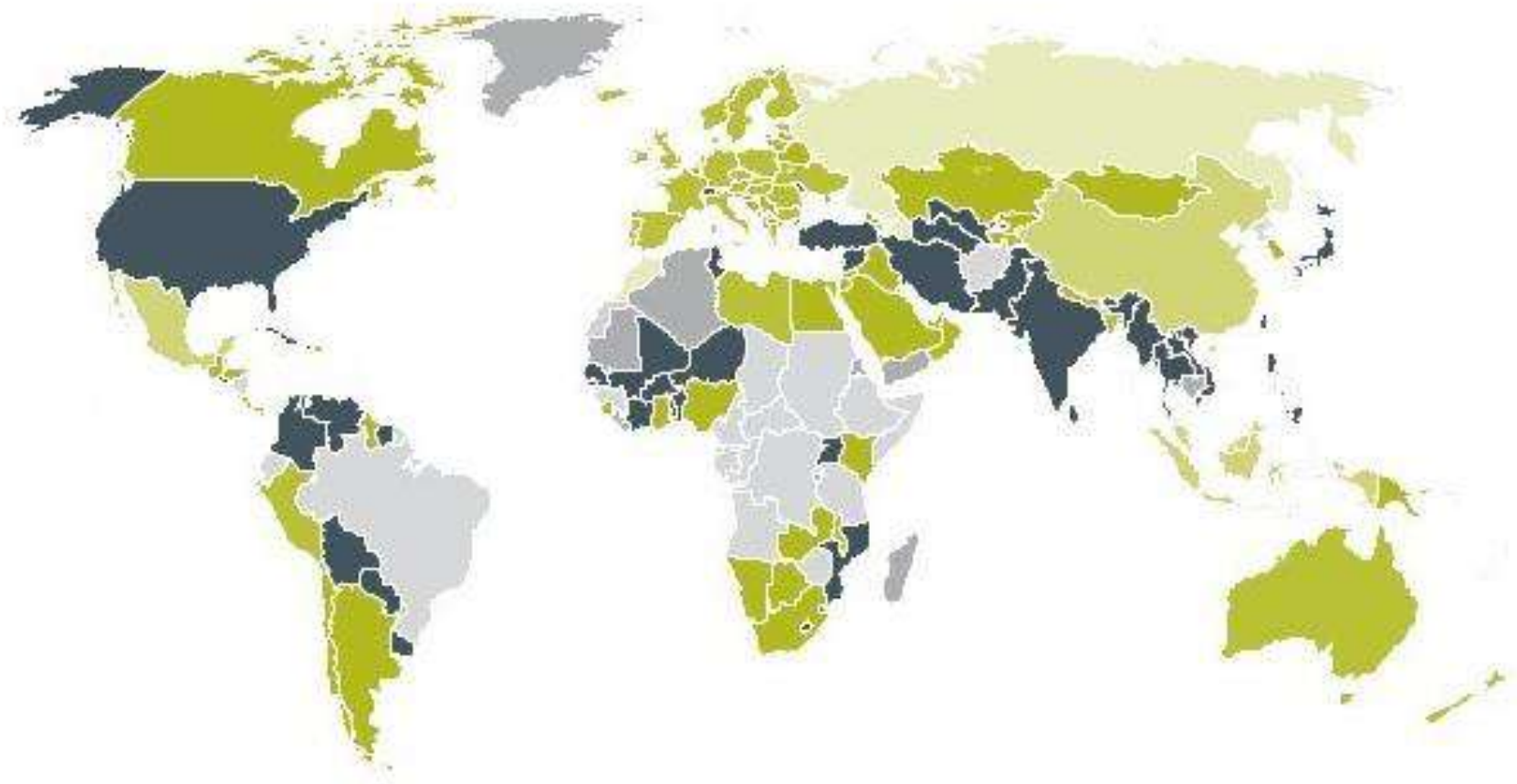


Executing a successful IFRS 17 project



The time to start is now!

# Auditors' journey into IFRS 17



# Implementation of IFRS 17 will have significant impacts for insurers across many areas,

## including:

- accounting policies, judgements and estimates;
- business processes, IT systems and data;
- financial reporting and controls;
- financial statement disclosures;
- resources and training;
- stakeholder communications and performance measures; and
- business strategy, pricing, products and compensation.

# Impact for insurers

- There will be increased risk of material misstatement arising from estimates that need to be made in the application of IFRS 17.
- Because IFRS 17 may
- increase the degree of estimation uncertainty and subjectivity,
- require more complex calculations to measure insurance contract liabilities and assets
- use a large volume of data, and
- increase the reliance on specialized knowledge and skills (for example, those of actuaries).
- Also increase the use of third party service providers and vendor IT applications, and
- it introduces new disclosure requirements for all entities.

# Responsibility of management

- Complying with IFRS 17
- Ensuring that methods, assumptions and data underpinning required estimates are appropriate
- Ensure that appropriate processes and controls exist over underlying models and data
  - whether self-produced or developed by third parties
- Ensure information produced is relevant and reliable
- Presentation and disclosure requirements of the standard are met

# Auditors' responsibility in an audit

- To give opinion that financial statements are free from material misstatements
- To respond to risk of material misstatement, the auditor must design and perform tests to obtain sufficient appropriate audit evidence.
- The higher the assessed risk of material misstatement, the more persuasive the evidence needs to be.
- Requirements of financial reporting framework will alter significantly under IFRS 17
- It is critical that audit team (including specialists) has appropriate skills, knowledge and understanding of revised standard.
- IFRS 17 is a largely principles-based standard, so the ability to critically evaluate management's application of IFRS 17 will be crucial given the lack of prescribed methodology and the increased complexity, subjectivity, judgement and estimation uncertainty

# Auditors' responsibility in an audit *(Contd..)*

- Enhanced presentation and disclosure requirements under IFRS 17 (and those under IAS 1 *Presentation of Financial Statements*) for estimates are extensive.
- It is important that the auditor understands these enhanced requirements and
- the level of detail required to meet the objective of the disclosure requirements and
- determines that individuals with appropriate skills and capabilities are used to audit the judgements made by management

# Areas where risk of material misstatement exist

Areas where risk of material misstatement exist

- financial statements arising specifically from the application of IFRS 17, including consideration of entity and its environment
- estimates including inherent risks and control risks.
- testing how management made the accounting estimates and developing an auditor's point estimate or range.
- data, information systems, processes and controls (including risk assessment, testing and impact on audit approach).
- financial statement disclosures related to accounting estimates and estimation uncertainty.
- other considerations for the auditor and the insurance entity, such as management bias and professional scepticism.

# Understanding the entity

# Understanding the entity

- Nature of business
- Depth and mix of in-house resources
- Current accounting policies and practices
- Different accounting models under IFRS 17 to different business lines
- CSM is a new concept

Some areas where management judgement will be exercised and lead to enhanced risks

# Auditors' responsibility in an audit

- Auditor will need to obtain an understanding of how entity intends to apply IFRS 17 on transition, including
  - why the entity considers the full retrospective approach to be impracticable or not.
  - Further consideration should be given to the application of the modified retrospective approach (if applicable) and
    - how simplifications allowed are applied.
- If the fair value approach is applied
  - valuation methodology will need to be understood.
- be attentive to regulatory pronouncements
- inspect any direct communication between the entity and their regulators
  - to understand the expectations of the regulators and their planned supervisory activities in relation to IFRS 17

# Suggested audit steps

- perform relevant inquiries with management and actuarial specialists
  - to understand the approaches applied, and
- review and assess accounting policy and methodology papers produced by the entity on their application of IFRS 17

# Assessment of controls

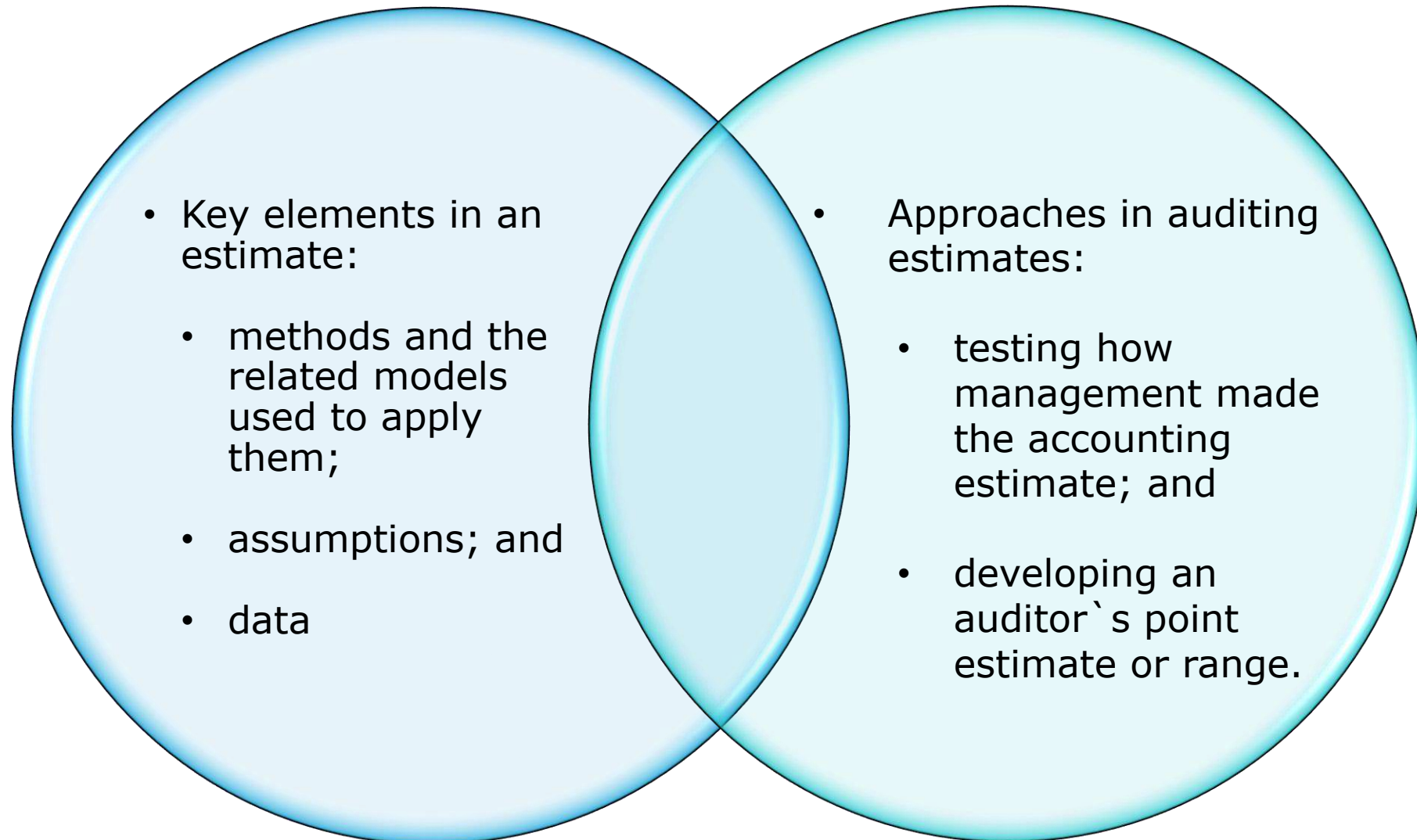
- Controls such as a review of assumptions by senior management or experts;
- Controls around the creation and change of models used in the determination of
- insurance liabilities;
- Controls around data transfer, e.g. from policy administration system to actuarial
- valuation system;
- Documented processes for accounting estimations; and
- Approval by those charged with governance

Risk of material misstatements  
due to increased management  
estimates

# Challenges during audit of accounting estimates

- Accounting estimates are susceptible to an inherent lack of precision in their measurement.
- Which therefore presents a risk of material misstatement to the financial statements.
- For all estimates impacting account balances, classes of transactions and disclosures considered material for the purposes of the audit the auditor must
  - obtain sufficient appropriate audit evidence
    - proportionate to the assessed degree of risk of material misstatement
      - to assess whether the estimate and its related disclosures are reasonable

# Auditors' responsibility in an audit



# Response to risk arising from material misstatements resulting from accounting estimates

- To perform an inherent risk assessment, the auditor will need
  - to understand the accounting policy and methodology decisions made by the entity.
  - perform relevant inquiries with management and actuarial specialists to understand the approaches applied, and
  - review and assess accounting policy and methodology papers produced by the entity on their application of IFRS 17.
- Entities should produce sufficient and appropriate documentation setting out their accounting policy and methodology decisions, and the justifications for them.
- Auditor will usually perform business process walkthroughs to
  - understand the processes, including information systems,
  - by which management develops the relevant accounting estimates and
  - how accounting policy and methodology decisions have been operationalized by management.

# Response to risk arising from material misstatements resulting from accounting estimates *(Contd..)*

- Assessment of the appropriateness of assumptions used against
  - current economic indicators (e.g. interest rates, inflation),
  - recent experience (e.g. of mortality, morbidity, policyholder lapses, changes to law or regulation, social inflation, emerging latent losses)
  - any change analysis performed by management (e.g. sensitivity analysis at an assumption level)
  - any relevant industry benchmarks (e.g. mortality tables, valuation assumption benchmarks).
- In addition, an overall assessment should be made of the reasonableness of the assumptions as a whole, including considerations of any indications of management bias.

# Response to risk arising from material misstatements resulting from accounting estimates *(Contd..)*

- Assessment of whether assumptions are interdependent and, where appropriate, internally consistent across the business and across different balances in the financial statements (e.g. interest rates, inflation, lapses).
- Testing of governance controls surrounding the setting of risk appetite and the update of assumptions at the committee level, e.g. Asset Liability Committee, Risk Committee or Audit Committee, where appropriate.
- Testing of operational controls for the appropriate entry of assumptions into actuarial models.

# Data testing

- Assessment of the appropriateness of the data used in the actuarial modelling
  - all relevant data elements are captured, and
  - there are any indicators of management bias;
- Testing of controls over the automated interfaces between operational administration systems and the actuarial models and IFRS 17 calculation engine
  - (e.g. policy, claims, reinsurance administration systems)
- Testing of data reconciliations between the operational administration systems and the actuarial models and IFRS 17 calculation engines;
- Testing of controls over any cleansing or other manipulation of data prior to use in actuarial models;
- Testing of controls over the data flow within actuarial models and/or IFRS 17 calculation engines, to ensure none is lost or corrupted during the calculation process; and
- Independent testing on data sets from the actuarial models and IFRS 17 calculation engine to ensure accuracy against data on the operational administration systems including verification back to underlying documentation (e.g. policy documentation and claim documentation).

# Testing of information system

# General IT control

- Auditor required to obtain an understanding of the information systems and related business processes relevant to financial reporting
- Impact of implementation of IFRS 17 on information systems, processes and internal controls to support estimates will affect the auditor's approach significantly.
- In the run up to the implementation of IFRS 17 and in the year of its first application,
  - auditor will need to gain an understanding of the entity's updated system of control relevant to financial reporting,
    - including the entity's use of IT, in order to identify and respond to the risks of material misstatement of insurance contract assets and liabilities and the related presentation and disclosure.
  - For IT applications relevant to the audit of estimates, the auditor will identify the risks arising from the use of IT and the general IT controls which address those risks.

# General IT control *(Contd..)*

- The extent to which the auditor will be able to rely on IT system processing, calculations and automated controls will largely depend on the maturity level of the insurer's system of controls and IT landscape
- Irrespective of whether the controls are automated or manual, the auditor needs to test data quality, data flows and key interfaces, for policy and claims data, asset data and actual cash flow data by re-performing and testing the entity's reconciliations with source systems, parameter completeness, consistency checks and validations

# **Risk related to financial statements disclosure**

# Auditor's responsibility

- Assessment of the insurance entity's disclosures includes
  - ensuring entity has made all required disclosures,
  - used the right level of detail and
  - disclosures are accurate and descriptive as to the key judgements made by the entity in estimating its insurance contract liabilities
  - other sources of estimation uncertainty.
- Based on their understanding of
  - insurance entity's operations,
  - measurement model(s) and
  - quality of its insurance contract portfolio,
- Read disclosures to evaluate whether disclosures are consistent with the auditor's understanding.

# Auditor's responsibility *(Contd..)*

- Read disclosures to evaluate whether disclosures are consistent with the auditor's understanding.
- Furthermore, based on the knowledge obtained in the audit, assess, whether key judgements and other sources of estimation uncertainty have been disclosed consistently and completely
- whether significant assumptions are consistent with each other and with those used in other accounting estimates and with related assumptions used in other areas of the entity's business activities.
- Furthermore, based on the knowledge obtained in the audit, assess, whether key judgements and other sources of estimation uncertainty have been disclosed consistently and completely
- whether significant assumptions are consistent with each other and with those used in other accounting estimates and with related assumptions used in other areas of the entity's business activities.

# Other factors

# Other factors

- **Skills**

- may need to supplement their teams with skills in a variety of areas including, for example, actuarial modelling, actuarial techniques for estimating future cash flows, IT, asset valuation skills, tax and economic forecasting.

- **Knowledge**

- In addition to knowledge of IFRS 17 and the financial reporting framework, knowledge of the insurance industry and its unique risks are required for an audit of the financial statements applying IFRS 17.

- **Resources**

- Auditors should ensure that they have access to appropriate audit tools (technical, technological, etc.) and have sufficient staffing at appropriate levels to execute a high-quality audit in a timely fashion.

- Therefore, additional engagement team members with the right expertise may need to be added to the audit team to ensure the team has the right complement of skills to audit the financial statements applying IFRS 17.
- Auditing financial statements applying IFRS 17 will require designing and performing audit procedures on the significant volume of data underpinning the valuation models which generate the estimates of insurance contract assets and liabilities. For those audit procedures, as well as for the planned reliance on newly built IT systems, automated procedures and automated controls, the auditor should consider their needs for IT skills/knowledge and data analysts.