

## FA Module 22: IFRS 17 Revenue, expense, subsequent measurement, onerous contracts (overview)

(The attached PDF file has better formatting.)

This module covers

- ! Subsequent measurement
- ! Onerous contracts
- ! Insurance revenue and insurance service expense

You are responsible for the material posted on the discussion forum, not for the text of IFRS 17. Final exam problems will not test onerous contracts.

The final exam will give a two-year non-onerous insurance contract with no reinsurance and test the general measurement approach. The practice problems in this module on subsequent measurement, insurance revenue, and insurance service expense prepare you for that problem.

Contracts are grouped by three criteria:

- ! Portfolios of contracts with similar risks and method of servicing (e.g., location, line of business)
- ! Groups of onerous, non-onerous, and the remaining contracts
- ! Grouping by issue date

Onerous contracts at initial recognition have no contractual service margin and a positive insurance contract liability. Contracts may become onerous (or non-onerous) at subsequent dates.

IFRS 17 onerous contracts are similar to SFAS 60 contracts with premium deficiencies.

- ! SFAS 60 first separates insurance contracts into groups, such as lines of business, and unless the group as a whole has a premium deficiency, no contracts in the groups have premium deficiencies.
- ! IFRS 17 requires contracts to be examined individually, unless the insurer believes that all contracts within the group are (or are not) onerous.

Changes in estimates have three effects:

- ! Changes related to past or current service flow through the statement of profit and loss
- ! Changes related to future service affect the contractual service margin (CSM) for non-onerous contracts.
  - " Adverse changes may reduce the CSM to zero and then flow through profit and loss.
- ! Changes in discount rates may flow through profit or loss or through other comprehensive income
  - " Insurers have this option to avoid accounting mismatch with IFRS 9

The final exam does not test onerous contracts or how changes in discount rates flow through the financial statements.

IFRS 17 reporting is complex. The postings on the discussion forum show the basic principles. Some postings cover additional items, but they tell you what is required for the final exam. The thread on practice exam questions (in the final exam forum) shows the type of problems you will be asked. You may also be tested on the problems asked in the homework assignments, which are taken directly from the forum postings.

Know what the following items contain and how they are computed. The loss component of the liability for remaining coverage is illustrated in the Module 24 postings. The final exam does not test onerous contracts or the loss component of the liability for remaining coverage.

- ! the contractual service margin
  - " the allocation of the contractual service margin to profit or loss

- ! the insurance contract liability (in three parts)
  - " liability for remaining coverage excluding the loss component
  - " the loss component of the liability for remaining coverage
  - " the liability for incurred claims
- ! the entries for the statement of profit or loss
  - " insurance revenue
  - " insurance service expense
  - " insurance finance income or expense

The practice problems on the discussion forum show how insurance revenue, insurance service expense, and insurance finance expense are accrued each period from the provision of insurance services, changes in estimates, and the passage of time.