

# Acquisition Costs



# Introduction to IFRS 17

## Acquisition costs recognition in P&L

Premium = 1,350

|            |     |
|------------|-----|
| CSM        | 150 |
| RA         | 100 |
| Acq. Costs | 300 |
| Expenses   | 200 |
| Claims     | 600 |

### Example: no amortisation of acquisition cost in P&L

|                                       |       |
|---------------------------------------|-------|
| Revenue                               | 1,050 |
| Expected claims and expenses          | 800   |
| Release of Risk Adjustment            | 100   |
| Release of Contractual Service Margin | 150   |

Less than premium

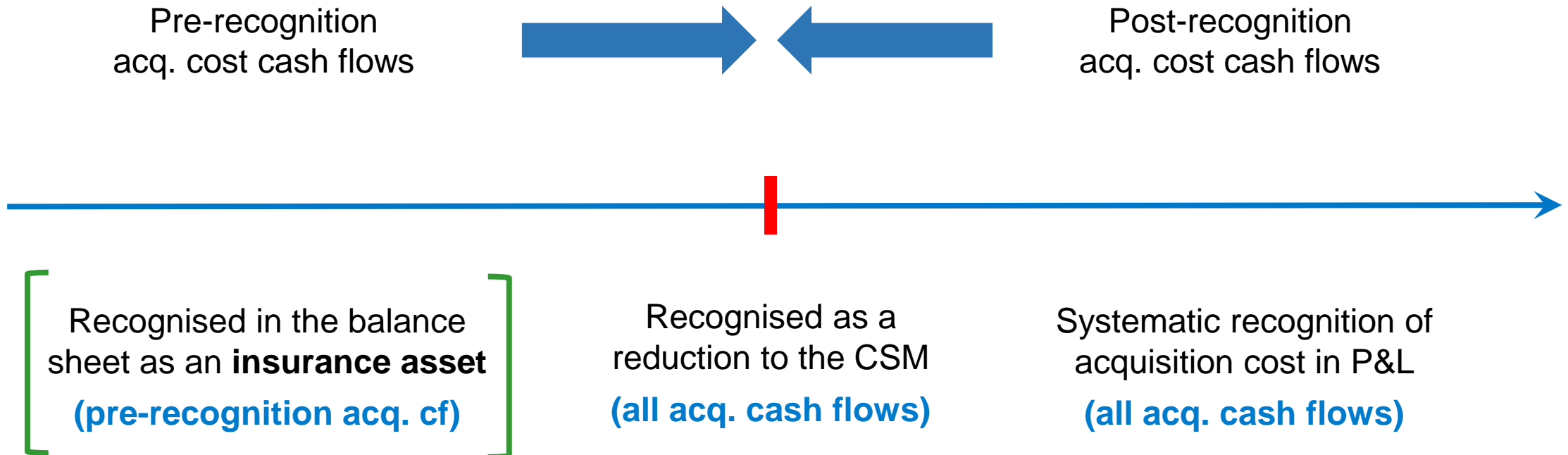
### Example: amortization of acquisition cost in P&L

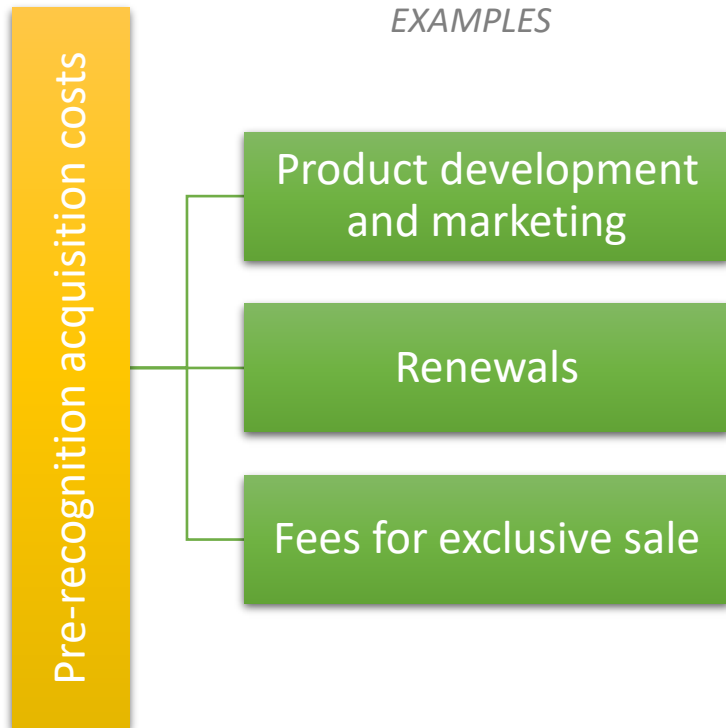
|                                       |       |
|---------------------------------------|-------|
| Revenue                               | 1,350 |
| Expected claims and expenses          | 800   |
| Release of Risk Adjustment            | 100   |
| Release of Contractual Service Margin | 150   |
| Amortisation of acquisition expenses  | 300   |

Equal to premium

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## Acquisition costs recognition in BS





### ***When do these costs occur?***

- Payment is made
- Policies have not been sold yet

### ***How do you account for these costs?***

Dt Acquisition cost asset  
(part of insurance contract liabilities)  
Ct Cash

### ***What happens if the group is finally recognised?***

Dt Contractual Service Margin  
(allocation to a group)  
Ct Acquisition cost asset

### ***What if there is no sale to allocate the asset?***

- Companies should perform impairment testing
- In case of negative test results – asset is derecognized and costs are expensed in P&L

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## Acquisition cost accounting

### Pre-recognition period

Pre-recognition acquisition cost cash flows

### Upon recognition

Pre-recognition acquisition cost cash flows

Acquisition cost cash flows upon recognition

Future projected acquisition costs cash flows

### Post-recognition

Systematic recognition of acquisition costs

**Actual** acquisition cost cash flows - **current service**

**Expected** acquisition cost cash flows - **current service**

Acquisition costs **experience adjustment** - **current service**

**Actual** acquisition cost cash flows - **future service**

**Expected** acquisition cost cash flows - **future service**

Acquisition costs – **changes in estimates**

| Balance Sheet         |     |              |                 | Income Statement |                 |                   |                      |
|-----------------------|-----|--------------|-----------------|------------------|-----------------|-------------------|----------------------|
| Fulfilment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account  | Incurred Claims | Incurred Expenses | Acquisition Expenses |
|                       |     | Cr           | Dr              |                  |                 |                   |                      |
|                       | Dr  |              | Cr              |                  |                 |                   |                      |
|                       | Dr  | Cr           |                 |                  |                 |                   |                      |
| Cr                    | Dr  |              |                 |                  |                 |                   |                      |
|                       |     |              |                 | Cr               |                 |                   | Dr                   |
|                       |     | Cr           |                 | Dr               |                 |                   |                      |
| Dr                    |     |              |                 | Cr               |                 |                   |                      |
|                       |     |              |                 | D/C              |                 |                   | D/C                  |
|                       | Dr  | Cr           |                 |                  |                 |                   |                      |
| Dr                    | Cr  |              |                 |                  |                 |                   |                      |
| D/C                   | C/D |              |                 |                  |                 |                   |                      |

Experience adjustment  
**current service**

Experience adjustment  
**future service**

(Art B96a, Art B113a)

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## Acquisition cost – Example 1

### Example 1

- Insurance policy issued on 1 Jan 2018
- 100 GBP of acquisition cost paid when the insurance policy is issued
- Policy's coverage period is 10 years

|  | Balance Sheet         |     |              |                 | P&L             |                      | off BS       |
|--|-----------------------|-----|--------------|-----------------|-----------------|----------------------|--------------|
|  | Fulfilment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account | Acquisition Expenses | Notional DAC |
| <b>1 Jan 2018</b>                            |                       |     |              |                 |                 |                      |              |
| Acquisition cost cash flows upon recognition |                       | 100 | -100         |                 |                 |                      | 100          |
| <b>31 Dec 2018</b>                           |                       |     |              |                 |                 |                      |              |
| Systematic recognition of acquisition costs  |                       |     |              |                 | -10             | 10                   | 90           |

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## Acquisition cost – Example 2

### Example 2

The situation as in Example 1, but additionally, 30 GBP of acquisition costs paid on 15 Nov 2017 i.e. before the insurance policy was issued (so called pre-recognition acq. costs)

|  | Balance Sheet         |     |              |                 | P&L             |                      | off BS       |
|--|-----------------------|-----|--------------|-----------------|-----------------|----------------------|--------------|
|  | Fulfilment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account | Acquisition Expenses | Notional DAC |
| <b>15 Nov 2017</b>                           |                       |     |              |                 |                 |                      |              |
| Pre-recognition acquisition cost cash flows  |                       |     | -30          | 30              |                 |                      | 30           |
| <b>1 Jan 2018</b>                            |                       |     |              |                 |                 |                      |              |
| Pre-recognition acquisition cost cash flows  |                       | 30  |              | -30             |                 |                      | 30           |
| Acquisition cost cash flows upon recognition |                       | 100 | -100         |                 |                 |                      | 130          |
| <b>31 Dec 2018</b>                           |                       |     |              |                 |                 |                      |              |
| Systematic recognition of acquisition costs  |                       |     |              |                 | -13             | 13                   | 117          |

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## Acquisition cost – Example 3

### Example 3

The situation as in Example 2, but additionally, 2 GBP of acquisition cost per year, payable on 1 Jan, is expected to be paid over the insurance period. Future acq. cost in total amount to 20 GBP (10 x 2 GBP). Discounting is ignored.

|   | Balance Sheet          |     |              |                 | P&L             |                      | off BS       |
|---|------------------------|-----|--------------|-----------------|-----------------|----------------------|--------------|
|   | Fulfillment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account | Acquisition Expenses | Notional DAC |
| <b>15 Nov 2017</b>                            |                        |     |              |                 |                 |                      |              |
| Pre-recognition acquisition cost cash flows   |                        |     | -30          | 30              |                 |                      | 30           |
| <b>1 Jan 2018</b>                             |                        |     |              |                 |                 |                      |              |
| Pre-recognition acquisition cost cash flows   |                        | 30  |              | -30             |                 |                      | 30           |
| Acquisition cost cash flows upon recognition  |                        | 100 | -100         |                 |                 |                      | 130          |
| Future projected acquisition costs cash flows | -20                    | 20  |              |                 |                 |                      | 150          |
| <b>31 Dec 2018</b>                            |                        |     |              |                 |                 |                      |              |
| Systematic recognition of acquisition costs   |                        |     |              |                 | -15             | 15                   | 135          |
| <b>1 Jan 2019</b>                             |                        |     |              |                 |                 |                      |              |
| Acquisition cost cash flows                   | 2                      |     | -2           |                 |                 |                      | 135          |
| <b>31 Dec 2019</b>                            |                        |     |              |                 |                 |                      |              |
| Systematic recognition of acquisition costs   |                        |     |              |                 | -15             | 15                   | 120          |



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## Acquisition cost – Example 4

### Example 4

The situation as in Example 3, but additionally, 7 GBP of acquisition was paid in 2018, instead of the expected 2 GBP. The related experience variance relates to the future service.

|   | Balance Sheet         |     |              |                 | P&L             |                      | off BS       |   |
|---|-----------------------|-----|--------------|-----------------|-----------------|----------------------|--------------|---|
|   | Fulfilment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account | Acquisition Expenses | Notional DAC |   |
| <b>31 Dec 2018</b>                                    |                       |     |              |                 |                 |                      |              |   |
| Systematic recognition of acquisition costs           |                       |     |              |                 | -15             | 15                   | 135          |   |
| <b>1 Jan 2019</b>                                     |                       |     |              |                 |                 |                      |              |   |
| Actual acquisition cost cash flows - future service   |                       | 7   | -7           |                 |                 |                      | 140          | } Experience adjustment future service<br>(Art B96a, Art B113a) |
| Expected acquisition cost cash flows - future service | 2                     | 2   |              |                 |                 |                      | 140          |   |
| <b>31 Dec 2019</b>                                    |                       |     |              |                 |                 |                      |              |   |
| Systematic recognition of acquisition costs           |                       |     |              |                 | -15.6           | 15.6                 | 124.4        |   |

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## Acquisition cost – Example 5

### Example 5

The situation as in Example 4, but the estimation of future yearly payments was changed from 2 GBP per year to 7 GBP per year. The total change in the future acq. cost cash flows estimate was 45 GBP ( (7-2) GBP x 9 years )

|   | Balance Sheet         |     |              |                 | P&L             |                      | off BS       |  |
|---|-----------------------|-----|--------------|-----------------|-----------------|----------------------|--------------|--|
|   | Fulfilment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account | Acquisition Expenses | Notional DAC |  |
| <b>31 Dec 2018</b>                                    |                       |     |              |                 |                 |                      |              |  |
| Systematic recognition of acquisition costs           |                       |     |              |                 | -15             | 15                   | 135          |  |
| <b>1 Jan 2019</b>                                     |                       |     |              |                 |                 |                      |              |  |
| Actual acquisition cost cash flows - future service   |                       | 7   | -7           |                 |                 |                      | 140          | } Experience adjustment future service (Art B96a, Art B113a) |
| Expected acquisition cost cash flows - future service | 2                     | -2  |              |                 |                 |                      | 140          |  |
| <b>31 Dec 2019</b>                                    |                       |     |              |                 |                 |                      |              |  |
| Systematic recognition of acquisition costs           |                       |     |              |                 | -15.6           | 15.6                 | 124.4        |  |
| Acquisition costs – changes in estimates              | -45                   | 45  |              |                 |                 |                      | 169.4        |  |

### Example 6

The situation as in Example 5, but the experience variance is related to the current service, instead of future service.

|   | Balance Sheet         |     |              |                 | P&L             |                      | off BS       |  |
|---|-----------------------|-----|--------------|-----------------|-----------------|----------------------|--------------|--|
|   | Fulfilment Cash Flows | CSM | Bank Account | Insurance Asset | Revenue Account | Acquisition Expenses | Notional DAC |  |
| <b>31 Dec 2018</b>  |                       |     |              |                 |                 |                      |              |  |
| Systematic recognition of acquisition costs                             |                       |     |              |                 | -15             | 15                   | 135          |  |
| <b>1 Jan 2019</b>   |                       |     |              |                 |                 |                      |              |  |
| Actual acquisition cost cash flows - <b>current service</b>             |                       |     | -7           |                 | 7               |                      | 135          | } Experience adjustment <b>current service</b> |
| Expected acquisition cost cash flows - <b>current service</b>           | 2                     |     |              |                 | -2              |                      | 135          |  |
| Acquisition costs <b>experience adjustment</b> - <b>current service</b> |                       |     |              |                 | -5              | 5                    | 135          |  |
| <b>31 Dec 2019</b>  |                       |     |              |                 |                 |                      |              |  |
| Systematic recognition of acquisition costs                             |                       |     |              |                 | -15             | 15                   | 120          |  |
| Acquisition costs – <b>changes in estimates</b>                         | -45                   | 45  |              |                 |                 |                      | 165          |  |