Full Retrospective Approach

Introduction to IFRS 17
Transitional provisions - Introduction

	Transition Date	Effective Date Initial Application	First IFRS 17 Fin. Stat.	

2020 | **2021** | **2022** | **2023**

IAS 8 Article 19(b)

CSM Transitional Provisions:

1 — Modified Retrospective Approach

2 — Fair Value Approach

IAS 8 Article 19(b)
*"When an entity changes an accounting policy upon initial application of an IFRS that does not include specific **transitional provisions** applying to that change, or changes an accounting policy voluntarily, it shall **apply the change retrospectively.**"*

Introduction to IFRS 17
Application of transitional provisions

		FV Approach			Modified Retrospective			Full Ret.
		A	B	C	D	E	F	
1970-1989	P1	■						
	P2					■		
	P3			■				
1990-2009	P1				■			
	P2		■					
	P3						■	
2010-2021	P1				■			
	P2						■	
	P3							■

XXXX-XXXX

Different generations may be covered by different sets of transitional provisions

P1 **P2** **P3**

Different portfolios may be covered by different sets of transitional provisions

A **B** **C**

There may be different sets of modifications within the given transitional approach

Introduction to IFRS 17 – Jun 2019
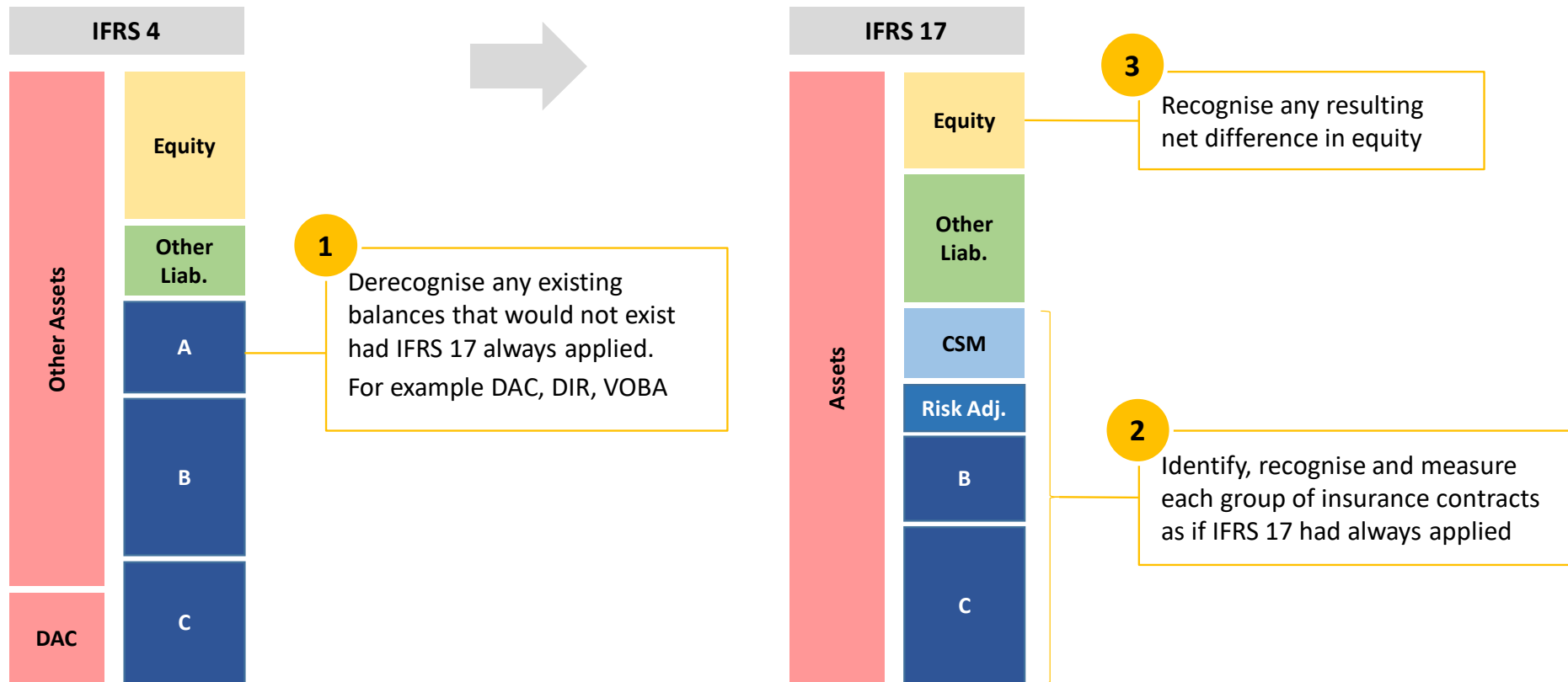
IFRS 4

Other Assets

DAC

Equity

Other Liab.

A

B

C

IFRS 17

Assets

Equity

Other Liab.

CSM

Risk Adj.

B

C

1 Derecognise any existing balances that would not exist had IFRS 17 always applied. For example DAC, DIR, VOBA

2 Identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied

3 Recognise any resulting net difference in equity

Modified Retrospective Approach

$$\frac{16}{64} = \frac{1}{4}$$

The objective of the modified retrospective approach is to achieve the **closest outcome** to the retrospective application possible, **without undue cost or effort**

Cashflows

Discount Rates

Risk Adjustment		
A	B	C
D	E	F

CSM
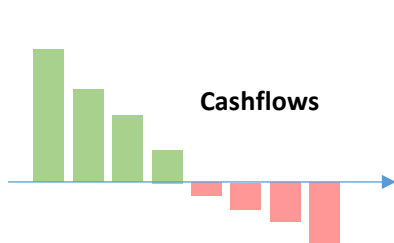
- Use of the actual cashflows vs projected cashflows
- Ins. contracts identification and classification date
- Cohorts with duration exceeding 1 year

- Approximate discount rates curve vs exact calculation
- Two methods to determine the approximate discount rates curve
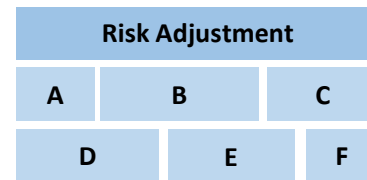
- Use the Risk Adjustment at the Transition Date adjusted for estimated Risk Adjustment releases

- Contracts without DPF: calculation of cumulative effect of CSM movements
- Contracts with DPF: calculation based on the fair value at the transition date

Introduction to IFRS 17
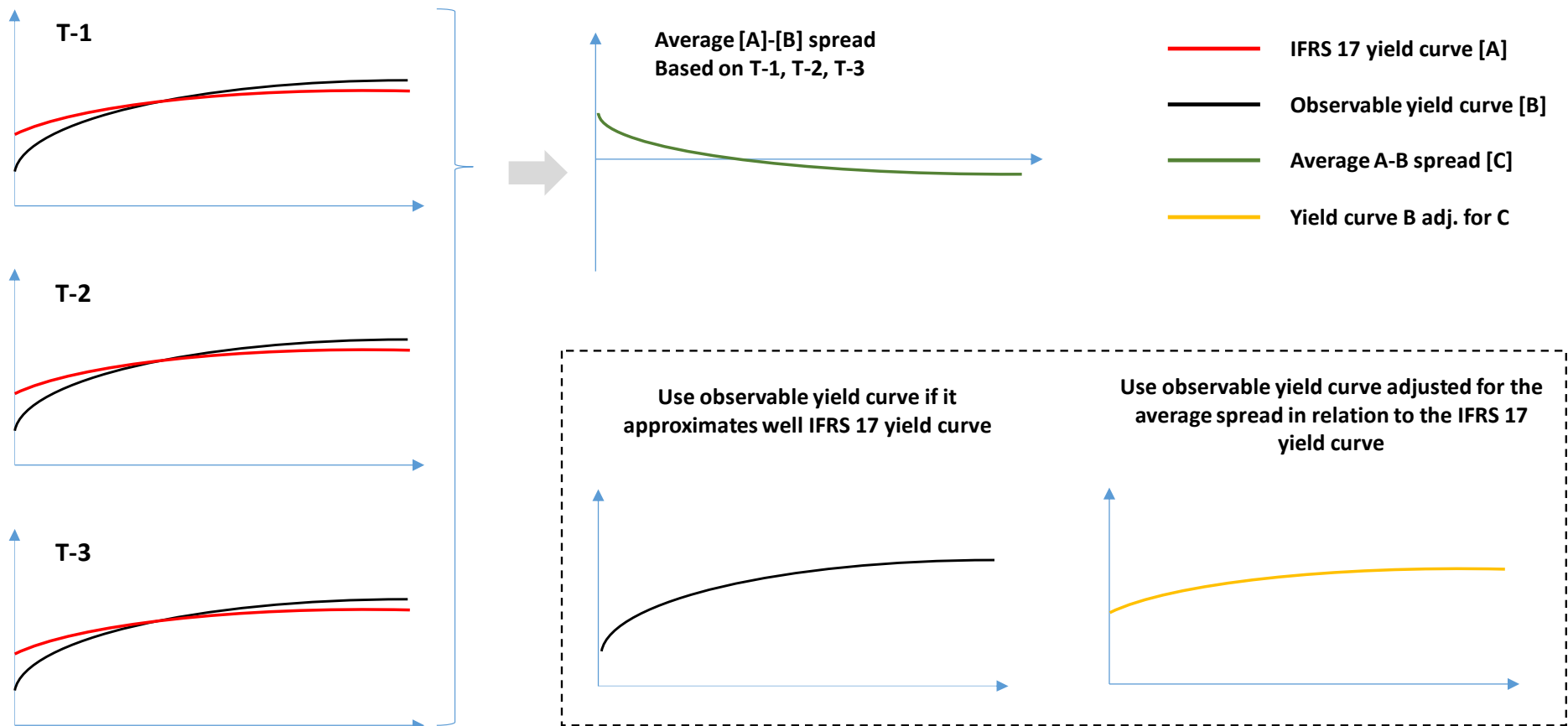## Cashflows modification

FULL Retrospective Approach

Projection

Transition
date or earlier

MODIFIED Retrospective Approach

Actual

Projection

Transition
date or earlier

FULL Retrospective Approach

Transition date or earlier

Transition date

MODIFIED Retrospective Approach

Estimated releases of the Risk Adjustment

Transition date or earlier

Transition date

T-1

T-2

T-3

Average [A]-[B] spread
Based on T-1, T-2, T-3

IFRS 17 yield curve [A]

Observable yield curve [B]

Average A-B spread [C]

Yield curve B adj. for C

Use observable yield curve if it approximates well IFRS 17 yield curve

Use observable yield curve adjusted for the average spread in relation to the IFRS 17 yield curve

CSM modification – Contracts without DPF
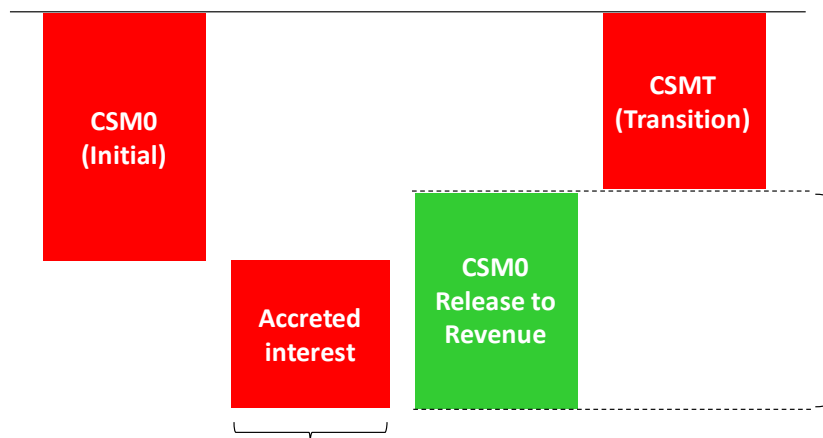
$$CSM_0 \times \frac{[CU\ Provided]}{[CU\ Provided] + [CU\ Remaining]}$$

Coverage Units provided since the inception date

Coverage Units remaining at the transition date

$$CSM_0 \times \{ [1+r(0,1)] \times [1+r(0,2)] \times \ldots \times [1+r(0,T)] - 1 \}$$

or

$$CSM_0 \times \{ [1+r(T,1)] \times [1+r(T,2)] \times \ldots \times [1+r(T,T)] - 1 \}$$

allowed if the cohorts modification applied

	Fair Value of underlying items	
⊖	**Fulfillment Cash flows**	**Deduct**
⊕	**Charges to the policyholder prior to the transition (including amounts deducted from underlying items)**	**Add**
⊖	**Payments made prior to transition that would not have varied with the underlying items**	**Deduct**
⊖	**Estimated reduction in the Risk Adjustment prior to the transition**	**Deduct**
=	**CSM at the Inception Date**	
⊖	**CSM that relates to the period before the transition date**	**Deduct**
=	**CSM at the Transition Date**	

|	Default Treatment	Modified Retrospective Approach
Identification of insurance groups	Determined at **initial recognition date**	Determined at **transition date**
Assessment against the VFA criteria		
Identification of discretionary cash flows		
Size of cohorts	**1 year or less**	Cohorts **can be bigger than 1 year**
Cohort simplification — Locked-in discount rates	**Initial recognition date**	Determined at **transition date**
Cohort simplification — OCI options	Calculated retrospectively i.e. **at each reporting date**	**At nil** or in case of contracts with DPF **on cumulative basis calculated at the transition date**
No cohort simplification — OCI options	Calculated retrospectively i.e. **at each reporting date**	**At nil** if financial assumptions changes have a substantial effect on the benefits
		PAA: Systematic allocation based on the discount rates at **transition date,** instead of claim date
		For contract with DPF equal to amount recognised in OCI on underlying assets

Fair Value Approach

Fair value approach - Introduction

| Fair Value | **−** | Fulfillment Cashflows | **=** | CSM |
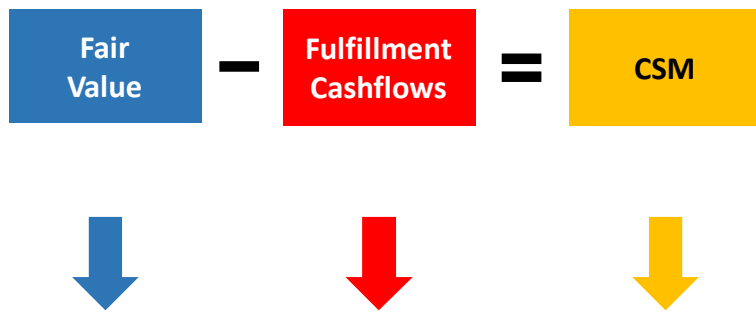
CSM or Loss Component at the Transition Date is calculated as the difference between the fair value of a group of insurance contracts and the fulfilment cash flows
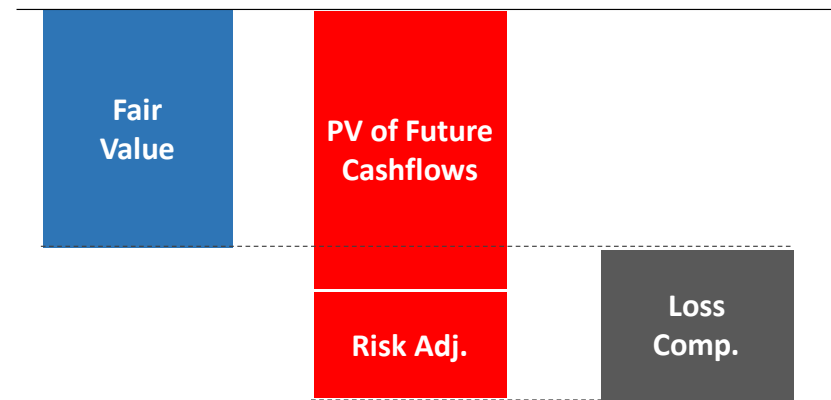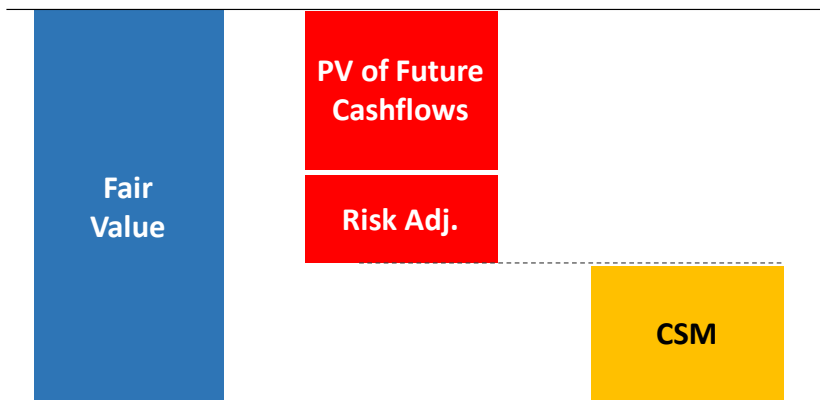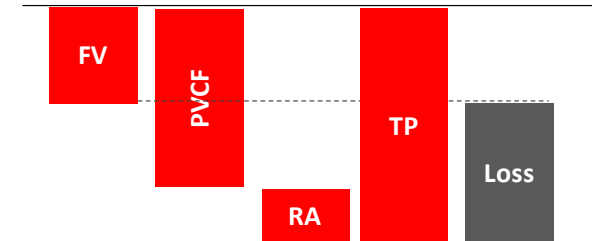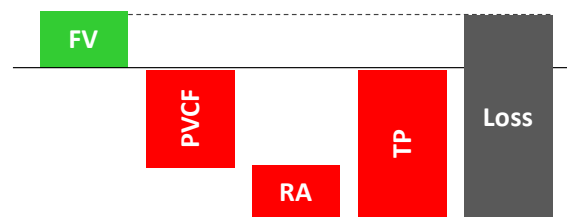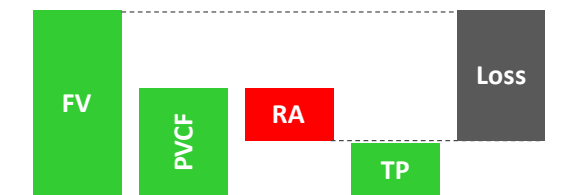
FVA - Insurance contracts issued

3Blocks ®

For insurance contracts issued:

| RA | Risk Adjustment always has credit (liability) balance |

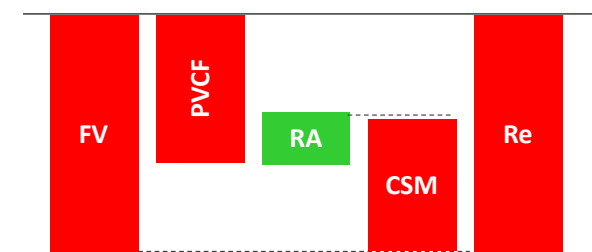| CSM | CSM always has credit (liability) balance |
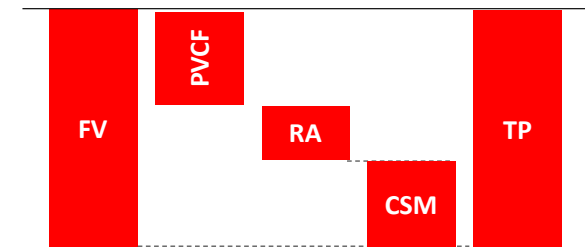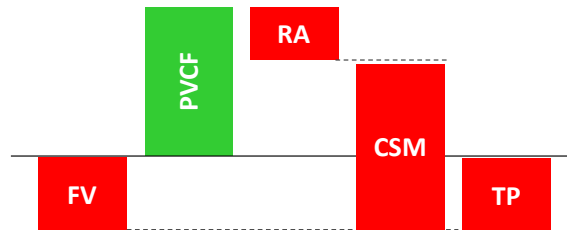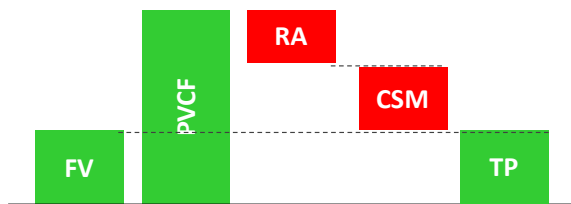
FVA - Reinsurance contracts held

3Blocks ®
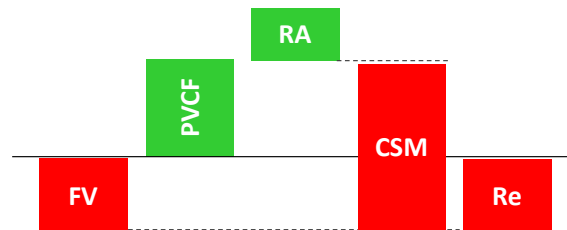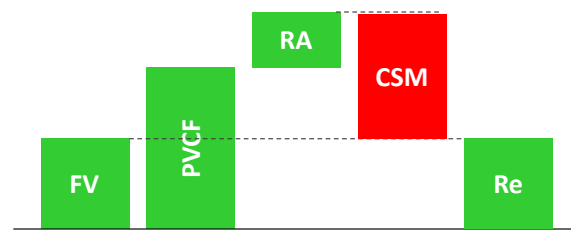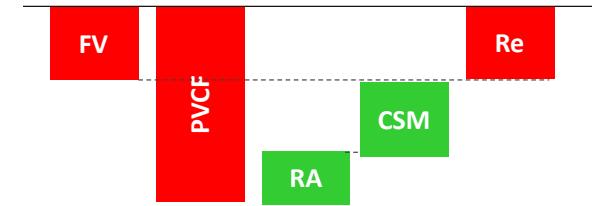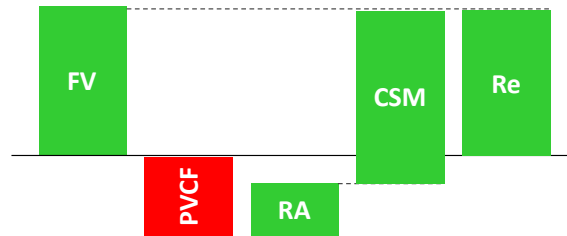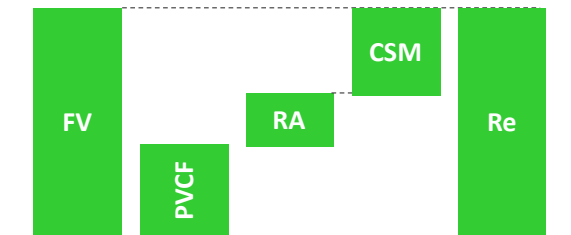
For reinsurance contracts held:

RA — Risk Adjustment always has debit (asset) balance

CSM
CSM — CSM may have both credit (liability) or debit (asset) balance

FVA - Other modifications

3Blocks ®

	Default Treatment	FV Approach Modification
Identification of insurance groups	Determined at **initial recognition date**	Determined at **transition date**
Identification of discretionary cash flows		
Assessment against the VFA criteria		
Locked-in discount rate determination		
PAA claims discount rates	Determined at **claim incurred date**	
Size of cohorts	Cohorts should be **1 year or less**	Cohorts **can be bigger than 1 year**
OCI option application	Calculated retrospectively i.e. **at each reporting date**	**At nil** or in case of contracts with DPF **on cumulative basis calculated at the transition date**