Accounting for different types of premium repayment transactions that do not meet the investment component definition

This paper presents premium repayment transactions that do not meet the definition of a Non-distinct Investment Component ("NDIC") and considers alternative views on how each transaction should be accounted for and presented in the financial statements under IFRS 17.

IFRS 17 does not prescribe any specific treatment for premium repayment transactions that do not meet the definition of a NDIC, except for IFRS 17:103(c) which suggests that the cash flows in relation to a refund of premium (ROP) can be included in the disclosures either by combining the ROP with the NDIC amounts or by deducting the ROP from the premiums received during the period applying IFRS 17:105(a)(i). Although ROP can be disclosed together with a NDIC, ROP's do not meet the definition of NDIC[1] because there is at least one circumstance under which the ROP is not due to the policyholder. For the purpose of this paper there are no NDIC's associated with any of the premium repayment transactions being considered.

Premium repayment transactions considered in this paper that would present similar accounting questions to an ROP due on cancellation of an insurance contract are:

1. No Claim Bonus ("NCB") repayments.
2. Experience Refund ("ER").

However, unlike the ROP which is repaid to the policyholder on contract cancellation, thus relating to future service that will no longer be provided due to the cancellation, the NCB and ER are paid to the policyholder only at the end of a specified coverage period and only when certain claims-related criteria are met. As such, for the NCB and ER, the insurance contract services to which they relate to have already been provided.

No Claim Bonus

A NCB that falls within the contract boundary of an insurance contract is an amount that is repayable to a policyholder at the end of a specified coverage period during which no insured events occurred that triggered the obligation to pay a claim/benefit to the policyholder. The NCB is lost if the contract is cancelled before the date when the NCB is vested. For the purpose of this paper, we have considered the following NCB-related fact pattern:

- an insurance contract with a contract boundary and a coverage period of 5 years;

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[1] In the April 2019 Transition Resource Group ("TRG") meeting that discussed the topic of the NDIC within an insurance contract, the staff paper AP01 Paragraph 10(e) had the following sentence:

"*[In determining whether the contract requires the entity to make a payment in all circumstances, the staff observe that] a payment amount calibrated to reflect outstanding future periods in which a service is provided that may indicate that the policyholder is entitled to a premium refund reflecting its consumption of service over the life of the contract.* ***In this case, the payments may represent a refund of premiums for unused coverage rather than an investment component***."

- the NCB is granted at the end of each annual period of coverage if no claims have been incurred in the prior year but it vests and it is repayable only at the end of year 5;
- this means that the NCB is repayable if, and only if, the insurance contract has not been cancelled before that date.

In the fact pattern above, the NCB does not meet the NDIC definition because there is a circumstance of no repayment when the policyholder terminates the policy before the end of year 5.

There are two different NCB amounts considered in this paper:

1. as a percentage of premiums, or
2. as a lump sum amount (i.e. an amount that cannot directly relate to the premium in how it is calculated)

For NCB repayable as a percentage of premiums, in reference to policy wordings extracted from products seen in the market with these NCB features, the NCB payable by the entity may vary when premiums vary in each policy year. Some illustrations for policy wordings are as follows:

"*…a No Claim Bonus that refunds 30% of the total premiums paid during the policy year that immediately precedes the payment of the No Claim Bonus, provided that no benefit has been paid out before. The bonus is payable every 5 years up to the 20th policy anniversary…*"

Or

"*If no claim is made for 3 consecutive policy years or more, policyholders will be eligible for this bonus up to 15% of the total premium paid for the preceding cover year on each corresponding policy anniversary: 3 consecutive policy years: 5% refund…*"

For NCB repayable which is not a percentage of premium, the repayment amount of NCB could be a fixed amount rather than depending on the total premiums received under the terms of the contract, i.e. when there are no claims reported:

"*if there is no claim reported in previous year, a fixed lump sum amount may be payable to the policyholder per policy year.*"

Experience Refund

The paper considers the ER as another type of premium repayment where an amount is paid to the policyholder if the claims experience, either at the product level or at the individual policyholder level, is better than expected. This paper deals with the accounting treatment of experience refund based on claims experience of an individual policyholder. The calculation of the ER considers the premium received and claims incurred and reported by the policyholder and requires the insurer to pay the ER amount if the calculation shows a level of claims that is lower than that specified in the ER clauses of the contract.

The policyholder is not entitled to the ER if claims experience is worse than expected, or if the policyholder terminates the policy during the coverage period. The forfeiture of the expected ER repayment in the event of cancellation creates a circumstance when the ER is not due thus failing the definition of NDIC. The paper asks for the

appropriate accounting treatment for each of the premium repayment transaction below.

1. ROP on cancellation of a contract
2. NCB % of premium
3. NCB lump sum
4. ER

Question 1 – Refund of Premium (ROP) on cancellation of a contract
What is the accounting treatment for an ROP (that is not a NDIC) where a policyholder is entitled to obtain the ROP if, and only if, the policyholder cancels the policy before a particular point in time within the coverage period?

View	*Initial measurement*	*Treatment when ROP incurred*	*Subsequent changes to the incurred ROP*
A	ROP is considered as an **expected reduction of inflows**	Balance sheet transfer from **Liability for remaining coverage (LfRC) to Liability for incurred claims (LIC)** with any impact recognised in **Insurance Revenue (IR)**	Adjusted through **IR**
B	ROP is considered as an additional **expected outflow**	Recognition of **Insurance service expense (ISE) and LIC**	Adjusted through **ISE**
C	ROP is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	ROP is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

View A
According to the revised definitions of LfRC and LIC in IFRS 17:

- LfRC includes an entity's obligation to pay amounts that are related to insurance contract services that are **not yet provided** and
- LIC includes an entity's obligation to pay amounts that are **not related to the provision of insurance contract services** and that do not form part of the LfRC.

Premiums received which relate to the future coverage should form part of the LfRC. There are no remaining insurance contract services not yet provided upon cancellation of the policy. The cancellation results in the ROP being incurred and it

should be transferred from LfRC to LIC as the payment of ROP is returning the portion of unused coverage instead of the provision of insurance contract services.

Assumed that the actual payment of ROP equals to the expected, the payment should be transferred directly from LfRC to LIC with reference to the revised definition of LfRC and LIC.

When the ROP incurred is transferred from LfRC to LIC, any experience adjustment on this amount before the settlement of ROP relates to current and past services and it is accounted for in the Insurance Revenue ("IR") line. This amount will be disclosed as one of the "other amounts" under IFRS 17:B124(d).

The adjustment through IR fulfils the requirement under IFRS 17:B120. For example, if the expected amount payable as ROP is transferred from LfRC to LIC but before the settlement of the LIC/ROP there is an event which warrants a change in the amount, the change will continue to be accounted for as one of the "other amounts" under IR.

Any adjustment before the ROP is incurred and transferred to LIC, relates to future coverage.

For example, if the entity expects a policyholder to terminate the 5 years' policy in Year 2. The payment of ROP will remain in LfRC until Year 2, if the policyholder acts as expected. However, if the policyholder does not terminate the policy as expected and the contract is now expected to remain valid until the end of coverage period, this change relates to future service and it should be accounted for against the Contract Service Margin ("CSM").

View B

Supporters of this view argue that an incurred ROP creates an obligation to make the payment to the policyholder in a similar way an incurred claim does even if the obligation to pay the amount is derived from an action of the policyholder i.e. cancellation of the insurance contract instead of being caused by the occurrence of an insured event. It is also possible that rational policyholders do not report incurred claims if the amount is less than the entitlement of NCB or ER they would vest if they do not cancel the contract.

Given these facts, the correct presentation for supporters of this view is to recognise the incurred ROP as ISE under LIC based on the requirements set out in IFRS 17:42. No transfer from the LfRC is required and no adjustments to IR are required.

Under this view, given that the ROP forms part of the expected cash outflows included in the expected ISE would result in an IR that is gross of ROP.

Supporters of this view acknowledge that this approach would require an amendment to the way IR and premium receipts are reconciled under IFRS 17:B120. The amendment would require ignoring the ROP cash flow as a component of premium receipt. They also acknowledge that this would appear to be contrary to the approach of disclosing premium receipts net of ROP that is explicitly referred to in IFRS 17:103(c) and IFRS 17:105(a)(i).

Although this view may appear in conflict with certain requirements of IFRS 17, they argue that an analogy could be drawn between the ROP scenario and the premium

waiver accounting treatment. Practice has emerged to indicate that the accounting for contracts with premium waivers result in the IR and ISE being grossed up amounts when compared to the premium receipts and the claims outflows thus requiring a modification of the reconciliation derived from IFRS 17:B120 to allow for these non-cash items.

View C

Supporters of this view note that in the September 2018 Staff Paper AP06 of TRG there are examples of accounting treatment when an entity refunds premium back to a policyholder, for which the LfRC has been decreased by adjusting IR without setting up the LIC.

According to IFRS 17:B123(a)(i), the reduction in the LfRC that gives rise to IR excludes changes that result from cash inflows of premiums received. The IR should be reconciled including premium received under IFRS 17:105(a)(i). Thus, the amount of premiums received should be reduced by any premiums refunded in order to complete the reconciliation described in IFRS 17:B123.

Supporters of this view argue that the entity needs to deduct the premium refund from the IR, which aligns with requirements of IFRS 17:B120 as the net premiums received after repayment of ROP will be equal to the IR recognised after IR has included the adjustment for ROP.

Supporters of this view believe that the ROP is not caused by an insured event and it cannot be presented as LIC even if the incurred ROP is due when there is no remaining coverage.

View D

Supporters of this view argue that the revised definitions of LfRC and LIC, include the amendment of "an obligation of pay amounts". Since the future receipt of premium does not constitutes the obligation for payment, "pay amounts" here is referring to claims or ROP as inferable from the IASB May 2020 Agenda Paper 2C paragraph 27:

"Some respondents said that the proposed definitions reflect some, but not all, of an entity's obligations arising from insurance contracts. For example, an entity might have an obligation to pay other amounts relating to the provision of insurance contract services—such as refunds of premiums to the policyholder or expenses payable to third parties. In addition, an entity might have an obligation to pay amounts not related to the provision of insurance contract services—such as some types of investment components. The carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability for incurred claims, and the measurement reflects all of an entity's obligations arising from the group of insurance contracts (see paragraph 40 of IFRS 17). Some respondents suggested the Board amend the definitions of the liability for remaining coverage and the liability for incurred claims for completeness to reflect all obligations arising from insurance contracts issued by an entity, consistent with the requirements for measuring those liabilities."

Cash inflows are included in measuring the LfRC to the extent they relate to future coverage and LIC for the coverage expired. Thus, the expected ROP would constitute the payment for the coverage for future service that should be included in the LfRC.

However, supporters of this view argue that because the incurred ROP is caused by the cancellation of a contract rather than the provision of an insurance service, the resulting adjustment to the LfRC is accounted for in the ISE line item and disclosed as a separate ISE component distinct from incurred claims / expenses.

Question 2 – No Claims Bonus calculated as a percentage of premium
What is the accounting treatment for the NCB calculated as a percentage of premiums (that is not a NDIC)?

As explained above, the NCB discussed in this paper is within the contract boundary and it is payable at the end of a specified period if and only if during the coverage period no insured event occurred and was reported thus triggering the obligation to pay a claim/benefit to the policyholder. Further, the NCB is subject to the condition that the policyholder does not terminate the policy before end of the specified period. When incurred/vested this NCB payable relates to the coverage already received by the policyholder up to the date the NCB is granted ("no claims" condition is met) but subject to the final vesting condition associated with the persistency of the policyholder in the contract to its contractual expiry date at which point the NCB is fully vested and payable.

View	*Initial measurement*	*Treatment when NCB incurred*	*Subsequent changes to the incurred NCB*
A	NCB is considered as an **expected reduction of inflows**	Balance sheet transfer from **LfRC to LIC** with any impact recognised in **IR**	Adjusted through **IR**
B	NCB is considered as an additional **expected outflow**	Recognition of **ISE and LIC**	Adjusted through **ISE**
C	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

View A
The NCB is payable at the end of a specified period if and only if during the coverage period no insured event occurred and was reported thus triggering the obligation to pay a claim/benefit to the policyholder. Further, the NCB is subject to the condition that the policyholder does not terminate the policy before end of the specified period. When incurred/vested this NCB payable relates to the coverage already received by the policyholder up to that point in time and the expected NCB amount payable should be transferred from the LfRC to the LIC.

When the NCB is calculated as a percentage of premiums the accounting should follow the process described in response to question 1.

The NCB is initially included as part of LfRC because the amended definition of LfRC includes an entity's obligation to pay amounts under existing insurance contract which are not related to provision of insurance contract services and that have not been transferred to the LIC.

Incurred NCB amounts are transferred from LfRC to LIC because the amended definition of LIC includes obligations to pay the amounts that are not claims and which are not part of the LfRC.

The changes in the incurred NCB amount should still be accounted for as an adjustment to IR because the amounts are premiums repaid to the policyholder. Supporters of this view argue that accounting for the changes in the NCB payable as an adjustment to IR is more useful to investors because it will present a lower loss ratio for the portfolio where the contracts with such NCB amounts are aggregated as compared to the case where the NCB is accounted for as an additional Insurance Service Expense ("ISE") item. Such lower loss ratio more faithfully represent the economics of the scenario where NCB is payable i.e. less premiums have been charged for the outflows that relate only to incurred claims in a given group of contracts.

View B

The September 2018 Staff Paper AP03 of TRG described the scenarios where the cash flows are contingent on claims for reinsurance contracts held. In that paper the IASB Staff observed that amounts exchanged between the issuer of an insurance contract and a policyholder that are contingent on claims are part of claims and would therefore be recognised as part of ISE.

Applying paragraph IFRS 17:42, an entity should recognise incurred NCB (irrespective of whether fixed or as a % of premiums) and ER amounts as part of ISE because they are related to incurred claims and/or are contingent on claims. Supporters of this view further argue that in applying this view, the total IR would reflect an amount of consideration, i.e. total premium received, to which the insurer is entitled to in exchange for the coverage already provided.

Any experience adjustment from the actual payment of the incurred NCB or ER payable (e.g. due to policyholders not renewing or terminating the contract during the specified period) would be accounted for as an adjustment to ISE (positive or negative as it may be).

View C

NCB and ER represent amounts repaid to the policyholder based on claims experience i.e. no claims or lower claims reported (as the case maybe) and subject to the condition that the policyholder does not terminate the policy before end of the specified coverage period.

The payment of NCB and ER are subject to the behaviour of policyholders but not the occurrence of insured events and they represent adjustments to the consideration that the insurer receives to stand ready to pay for incurred claims. Based on this rationale, supporters of this view argue that all repayments of premium that are not NDIC are accounted for within the LfRC without recognising a LIC.

Applying IFRS 17:B124(d), insurance revenue should be adjusted for those amounts which are related to other than provision of future services. The NCB and ER are expected to be paid at the end of the coverage period and are computed using the experience / events occurred during the coverage period of the policy. Changes to these amounts once incurred do not relate to future service and adjust IR and the LfRC in line with past coverage guidance for experience variance on premium and premium-related cash flows that relates to past coverage (IFRS 17:B96(a) and IFRS 17:B97(c)).

View D

Supporters of this view argue that the revised definitions of LfRC and LIC include the amendment of "an obligation of pay amounts". "Pay amounts" would include other amounts that the insurer is required to pay as a result of its obligation under the contract and this conclusion can be inferred from the IASB May 2020 Agenda Paper 2C paragraph 27.

"Some respondents said that the proposed definitions reflect some, but not all, of an entity's obligations arising from insurance contracts. For example, an entity might have an obligation to pay other amounts relating to the provision of insurance contract services—such as refunds of premiums to the policyholder or expenses payable to third parties. In addition, an entity might have an obligation to pay amounts not related to the provision of insurance contract services—such as some types of investment components. The carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability for incurred claims, and the measurement reflects all of an entity's obligations arising from the group of insurance contracts (see paragraph 40 of IFRS 17). Some respondents suggested the Board amend the definitions of the liability for remaining coverage and the liability for incurred claims for completeness to reflect all obligations arising from insurance contracts issued by an entity, consistent with the requirements for measuring those liabilities."

Further, in the case of NCB and ER, the NCB and ER are recognised as a reduction to the cash inflows at initial recognition. This is because the NCB and ER have the economic effect of charging a lower premium because of the entity's expectations of no or low claims experience, under certain scenarios. Once incurred, the resulting adjustment to the LfRC is accounted for in the ISE line item and disclosed as a separate ISE component distinct from incurred claims / expenses to reflect the actual payment the insurer is required to make under the contract because certain conditions have been met.

Question 3 – No Claims Bonus as a fixed amount
What is the accounting treatment for the NCB which is a fixed lump sum amount (that is not a NDIC) and is this different to your answer to question 2 where the NCB is calculated as a percentage of premiums?

The NCB is payable at the end of a specified period if and only if during the coverage period no insured event occurred and was reported thus triggering the obligation to pay a claim/benefit to the policyholder. Further, the NCB is subject to the condition that the policyholder does not terminate the policy before end of the specified period. When incurred/vested this NCB payable relates to the coverage already received by the policyholder.

View	*Initial measurement*	*Treatment when NCB incurred*	*Subsequent changes to the incurred NCB*
A	NCB is considered as an **expected reduction of inflows**	Balance sheet transfer from **LfRC to LIC** with any impact recognised in **IR**	Adjusted through **IR**
B	NCB is considered as an additional **expected outflow**	Recognition of **ISE and LIC**	Adjusted through **ISE**
C	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	NCB is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

<u>View A</u>
Same as Question 2.

<u>View B</u>
Same as Question 2

<u>View C</u>
Same as Question 2

<u>View D</u>
Same as Question 2

Question 4 – Experience refund
If the repayment is structured as an ER payment what is the accounting treatment?

View	*Initial measurement*	*Treatment when ER incurred*	*Subsequent changes to the incurred ER*
A	ER is considered as an **expected reduction of inflows**	Balance sheet transfer from **LfRC to LIC** with any impact recognised in **IR**	Adjusted through **IR**
B	ER is considered as an additional **expected outflow**	Recognition of **ISE and LIC**	Adjusted through **ISE**
C	ER is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **IR**, the incurred ROP remains part of the **LfRC**	Adjusted through **IR**
D	ER is considered as an **expected reduction of inflows**	Accounting for any impact is recognised in **ISE**, the incurred ROP remains part of the **LfRC**	Adjusted through **ISE**

View A
Same as Question 2

View B
Same as Question 2

View C
Same as Question 2

View D
Same as Question 2

Appendix – Technical references

Definitions (emphasis added)

Liability for remaining coverage [2]

An entity's obligation to:

- *a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage); and*
- *b)* ***pay amounts under existing insurance contracts that are not included in (a) and that relate to:***
  - *i.* ***insurance contract services not yet provided*** *[emphasis added] (ie the obligations that relate to future provision of insurance contract services); or*
  - *ii. any investment components or other amounts that are not related to the provision of insurance contract services and* ***that have not been transferred to the liability for incurred claims****. [emphasis added]*

Liability for incurred claims [3]

An entity's obligation to:

- *a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and*
- *b)* ***pay amounts that are not included in (a) and that relate to:***
  - *i.* ***insurance contract services that have already been provided*** *[emphasis added]; or*
  - *ii. any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.*

IFRS 17 paragraph 42

"An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for incurred claims:

- *(a) insurance service expenses—for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;*
- *(b) insurance service expenses—for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and*
- *(c) insurance finance income or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87."*

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[2] The original definition was "An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the coverage period)."

[3] The original definition was "An entity's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses."

IFRS 17 Paragraph 86

An entity may present the income or expenses from a group of reinsurance contracts held (see paragraphs 60–70), other than insurance finance income or expenses, as a single amount; or the entity may present 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. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid it shall:

(a) treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held

(b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; and

(c) not present the allocation of premiums paid as a reduction in revenue.

IFRS 17 paragraph 103

"An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to services, if applicable:

- *(a) insurance revenue.*
- *(b) insurance service expenses, showing separately:*
  - *(i) incurred claims (excluding investment components) and other incurred insurance service expenses;*
  - *(ii) amortisation of insurance acquisition cash flows;*
  - *(iii) changes that relate to past service, ie changes in fulfilment cash flows relating to the liability for incurred claims; and*
  - *(iv) changes that relate to future service, ie losses on onerous groups of contracts and reversals of such losses.*
- *(c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i))."*

IFRS 17 paragraph 105

"To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to services provided in the period, if applicable:

- *(a) cash flows in the period, including:*
  - *(i) premiums received for insurance contracts issued (or paid for reinsurance contracts held);*
  - *(ii) insurance acquisition cash flows; and*
  - *(iii) incurred claims paid and other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contracts held), excluding insurance acquisition cash flows.*
- *(b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;*
- *(c) insurance finance income or expenses; and*
- *(d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts."*

IFRS 17 paragraph B96(a)

"For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph B72(c);"

IFRS 17 paragraph B97(c)

"An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

[…]

(c) experience adjustments, except those described in paragraph B96(a)."

IFRS 17 paragraph B120

"The total insurance revenue for a group of insurance contracts is the consideration for the contracts, ie the amount of premiums paid to the entity:

(a) adjusted for a financing effect; and
(b) excluding any investment components."

IFRS 17 paragraph B123

"Applying IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying IFRS 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

(a) changes that do not relate to services provided in the period, for example:
   (i) changes resulting from cash inflows from premiums received;
   (ii) changes that relate to investment components in the period;
   (iia) changes resulting from cash flows from loans to policyholders;
   (iii) changes that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));
   (iv) insurance finance income or expenses;
   (v) insurance acquisition cash flows (see paragraph B125); and
   (vi) derecognition of liabilities transferred to a third party.

(b) changes that relate to services, but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage (see paragraphs 47–52)."

IFRS 17 paragraph B124 [emphasis added]

"Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

- *(a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:*
  - *(i) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);*
  - *(ii) repayments of investment components;*
  - *(iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));*
  - *(iv) insurance acquisition expenses (see paragraph B125); and*
  - *(v) the amount related to the risk adjustment for non-financial risk (see (b)).*
- *(b) the change in the risk adjustment for non-financial risk, excluding:*
  - *(i) changes included in insurance finance income or expenses applying paragraph 87;*
  - *(ii) changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and*
  - *(iii) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).*
- *(c) the amount of the contractual service margin recognised in profit or loss in the period, applying paragraphs 44(e) and 45(e).*
- ***(d) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service (see paragraph B96(a))."***

September 2018 Staff Paper AP03 of TRG

"20. Exchanges between a reinsurer and a cedant need to be identified as either part of claims or part of premiums for the reinsurer that issues the contract to either recognise these amounts within claims incurred as insurance service expenses applying paragraph 42(a) of IFRS 17 or recognise these amounts as insurance revenue applying paragraph B123 or B126 of IFRS 17.

21. IFRS 17 does not provide specific requirements for determining whether exchanges between the entity and the policyholder are part of the premium or part of claims, except with respect to the presentation of income or expenses from reinsurance contracts held in paragraph 86 of IFRS 17.

22. The staff observe that the requirements for the presentation of income or expenses from reinsurance contracts held are based on the economic effect of exchanges between the reinsurer and the cedant, and therefore the staff consider that an assessment of the economic effect of such exchanges would be appropriate to apply to reinsurance contracts issued as well."

"34. In summary, the staff observe that amounts exchanged between the issuer of an insurance contract and the policyholder that are not contingent on claims:
(a) are part of the premium and would therefore be recognised as part of the insurance revenue; and

(b) if paid after the premium is received, may meet the definition of an investment component, provided the amounts are repaid to the policyholder in all circumstances."

September 2018 Staff Paper AP06 of TRG

The September 2018 Staff Paper AP06 of TRG contains examples of accounting treatment when an entity refunds premium back to a policyholder, for which the LfRC has been decreased by adjusting revenue without setting up the LIC.

April 2019 Staff Paper AP01 of TRG paragraph 10(e) [emphasis added]

"In determining whether the contract requires the entity to make a payment in all circumstances, the staff observe that:

- *(a) paragraphs 10–13 of IFRS 17 require an entity to assess at inception whether an investment component is separated from an insurance contract. To make that assessment, the entity determines whether the contract includes an investment component at inception.*
- *(b) different events can trigger a payment to a policyholder under an insurance contract. For example, a payment could be due because the policyholder terminates the contract, an insured event occurs or the contract reaches its maturity. The insurance contract includes an investment component only if a payment would occur in all circumstances. For example, an uncancellable contract that requires an entity to pay an amount when the policyholder dies includes an investment component because the entity is required to pay the amount in all circumstances. The amount to be paid in this case is a claim for a future event that is certain—ie the death of the policyholder (although the timing is uncertain).1 However, an uncancellable contract that requires an entity to pay an amount only if the policyholder survives to a specified age but does not require the entity to pay any amount if the policyholder dies before that does not include an investment component. The amount to be paid in this case is a claim for an insured event—ie the survival of the policyholder.*
- *(c) paragraph B18 of IFRS 17 states that an entity needs to assess the insurance risk excluding scenarios that have no commercial substance (ie no discernible effect on the economics of the transaction). Hence, for the purpose of determining if an insurance contract includes an investment component the entity needs to assess whether scenarios in which no payments are made have commercial substance. The entity does not consider a scenario for which no payment is made if that scenario has no commercial substance.*
- *(d) in some scenarios, the amount of the payment could be zero. However, this does not necessarily mean that no investment component exists. For example, an entity would need to consider whether a scenario in which the amount of payment is zero arises from:*
  - *(i) a payment that an entity makes to the policyholder early in the coverage period that might reduce the investment component to zero later in the coverage period.*
  - *(ii) the policyholder's decision to use a payment due from the entity to settle amounts due to the entity. This might be the case when the policyholder decides to terminate a contract early in the coverage period and uses a surrender amount to pay surrender charges that*

are equal to or higher than the surrender amount, or when the policyholder has the option to use a surrender amount to buy insurance coverage, such as an annuity.2 In the staff view, the fact that the policyholder chooses to use a payment it is due to fund payments to the entity does not mean the entity is not required to make payments in all circumstances. This is because settling amounts due on a net or gross basis should not affect the outcome of the assessment of whether an investment component exists.

(e) a payment amount calibrated to reflect outstanding future periods in which a service is provided that may indicate that the policyholder is entitled to a premium refund reflecting its consumption of service over the life of the contract. In this case, the payments may represent a refund of premiums for unused coverage rather than an investment component."

IASB May 2020 Agenda Paper 2C paragraph 27

"Some respondents said that the proposed definitions reflect some, but not all, of an entity's obligations arising from insurance contracts. For example, an entity might have an obligation to pay other amounts relating to the provision of insurance contract services—such as refunds of premiums to the policyholder or expenses payable to third parties. In addition, an entity might have an obligation to pay amounts not related to the provision of insurance contract services—such as some types of investment components. The carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability for incurred claims, and the measurement reflects all of an entity's obligations arising from the group of insurance contracts (see paragraph 40 of IFRS 17). Some respondents suggested the Board amend the definitions of the liability for remaining coverage and the liability for incurred claims for completeness to reflect all obligations arising from insurance contracts issued by an entity, consistent with the requirements for measuring those liabilities."