

Measurement of coverage units under IFRS 17:B119 and the determination of the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service (subject to disclosure under IFRS 17:117(c)(v)) (Deloitte)

Background

The accounting for the amount of CSM in a group of contracts that is recognised as insurance revenue in a given period is based on the allocation process set out in IFRS 17:B119 where IFRS 17 mandates the allocation of CSM at the end of the period using the coverage units approach.

IFRS 17:B119 states that the coverage units are used to determine the amount of CSM that goes to P&L in the period and, together with the other components of insurance revenue specified in IFRS 17:B121, depicts "the insurance contract services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e))."

The definition of insurance contract services is included in IFRS 17 Appendix A:

The following services that an entity provides to a policyholder of an insurance contract:

- (a) coverage for an insured event (insurance coverage);*
- (b) for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and*
- (c) for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).*

The "coverage of an insured event" is understood as the obligation to stand ready for an uncertain insured event to occur rather than the fulfilment of the settlement of an incurred claim. The settlement activity is explicitly excluded from the service definition and it is treated as a mere activity to discharge a service already complete at the time the liability for incurred claims is recognised. This indicates that all of the insurance contract services have to be rendered prior to any of the following events which would terminate the associated service obligation:

1. the insured event occurs and no further insurance coverage is due beyond that point,
2. all amounts due to current policyholders relating to investment-return and investment-related services have been paid; and
3. the policyholder cancels the contract

The amendments to IFRS 17 published in June 2020 introduced a new disclosure requirement in the section dedicated to the "Significant judgments in applying IFRS 17", under sub-paragraph IFRS 17:117(c)(v). This new requirement is for the insurer to disclose the inputs, assumptions and estimation techniques used "to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service".

Question

Is the determination of the relative weighting of the benefits referred to in IFRS 17:117(c)(v) one input that needs to be current at the reporting date?

Views

View 1 – The determination of the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service is a judgment (to be disclosed under IFRS 17:117(c)(v)) and IFRS 17 does not require the entity to make such determination so that it is current at the reporting date.

Supporters of this view believe that under IFRS 17 an insurer that issues insurance contracts with multiple services such as those described in IFRS 17:117(c)(v), would determine how to combine them for the calculation of coverage units under IFRS 17:B119 at initial recognition of the group of contracts.

When the group is finally formed at the end of the relevant twelve month period, the final weighting is then determined to convert each service in the relevant number of coverage units for the application of IFRS 17:B119. These weightings are derived from the terms and conditions of the insurance contracts that form the group and the relative weighting of those services does not change in subsequent periods unless there is a modification of any of the contracts in the group. In this case the weightings for the group may need to change.

Supporters of this view believe that an insurer that voluntarily adopts a dynamic calculation of the weighting applicable to the benefits provided by a group of contracts is entitled to do so under IFRS 17 as it determines the estimation technique used to calculate the number of coverage units in a given group.

View 2 – The determination of the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service is a judgment (to be disclosed under IFRS 17:117(c)(v)) and IFRS 17 requires the entity to make such determination so that it is current at the reporting date.

Supporters of this view believe that the calculation of the weighting of the benefits described in IFRS 17:117(c)(v) is associated with the process of calculating the number of coverage units mandated in IFRS 17:B119.

The fact that a group of insurance contracts contains contracts that offer multiple benefits is a frequent fact pattern and the circumstances described in IFRS 17:117(c)(v) only call out two subsets of such circumstances, that is when the multiple benefits include "insurance coverage and investment-return service" and "insurance coverage and investment-related service". However, as explained in the HKICPA educational guidance on "Determining coverage units and relative weighting for contracts that provide multiple services", at least a third set of circumstances exists when different types of insurance coverages are part of the same insurance contract. This scenario is not subject to any particular disclosure requirements though.

The approach to calculate the relative scaling factors for multiple benefits offered by a group of contracts should take into account whether the benefits are fixed and guaranteed or variable and whether the coverage and/or service periods are the same or different. It would appear that the scaling factors can be a key input in the estimation technique used to calculate the total number of coverage units in the group of contracts.

Arguably, for a set of circumstances when all the benefits are fixed and guaranteed and their coverage and/or service periods identical, an insurer may not need to revise the weighting used to calculate the number of coverage units that each contract contributes to the total number of coverage units of a given group of contracts.

However, in all other cases the current measurement requirements of IFRS 17:B119 would require the insurer to update the weightings to reflect the different composition of the relative size of each benefit at the reporting date.