

Proactive Monitoring
Limited scope review

IFRS 17 *Insurance Contracts*
“Life after the transition”

A focus on accounting policies,
judgements and assumptions applied

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JSE

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1. Introduction

This report presents the findings of the limited scope review we conducted on IFRS 17 *Insurance Contracts* during 2024 and 2025.

Our 2025 annual Proactive Monitoring (“PM”) report explains the differences between our limited scope and detailed review processes. The objective of the JSE’s process of reviewing Annual Financial Statements (“AFS”) is both to ensure the integrity of financial information and to contribute towards the production of quality financial reporting by entities who list securities on our market. This aligns with one of the general principles of the JSE Listings Requirements (the “**Listings Requirements**”), namely, to enhance investor confidence in our market.

We remind readers that we publish regular reports on our PM reviews to our website which (inter alias) explain the processes applied and provide feedback on our findings.

The aim of this report is to highlight matters and provide details regarding our expectations for financial reporting to help prevent the misapplication of IFRS.

2. Findings: Executive summary



Our process identified the following **common** areas of non-compliance with IFRS 17:

- Disclosure of overly aggregated time bands in the Contractual Service Margin (“CSM”) maturity analysis, resulting in users being unaware of any non-linearity in the pattern of release of the remaining CSM balance;
- Non-disclosure of summary quantitative information for concentrations-of-insurance risk, resulting in users not understanding where (and to what extent) the actual concentrations are;
- Non-disclosure of a claims development table for annuity-type income protection policies, resulting in users not understanding:
 - Which years performed better / worse both from a perspective of claims instituted and an estimation of those claims; and
 - Whether there is a pattern to the adjustments being made between incident years;
- Non-disclosure of quantitative information regarding lapse rates, surrender rates and paid-up rates, which were key assumptions used in estimating future cash flows for insurance lines measured using the General Measurement Model (“GMM”); and
- Non-disclosure of accounting policy choices that materially affect the issuers’ AFS.

Our process also identified **less common** areas of non-compliance with IFRS 17. We summarise those findings below:



- For the Premium Allocation Approach (“PAA”) measurement model:
 - Policy disclosures indicated that the threshold (for testing the eligibility of groups of contracts for the PAA) was calculated at a (higher) portfolio level instead of at the correct (lower) group-of-contracts level; and
 - Omission of entity-specific judgements and assumptions to support the *reasonable expectation* that the PAA would not differ materially from the GMM;
- Incomplete disclosures of significant judgements for the following instances:
 - No clarity on the level of assessment for grouping of contracts into annual cohorts;
 - Certain types of cash flows were estimated at a portfolio level (instead of at a group-of-contracts level) and then allocated to groups-of-contracts without explaining what these cash flows were nor how they were allocated; and
 - Non-disclosure of the quantitative threshold used for making the ‘substantially investment-related’ judgement allowing insurance contracts with direct participation features to be measured using the variable fee approach model;
- Inconsistent and/or incomplete disclosure for non-performance risk on reinsurance assets;
- For target confidence levels:
 - Limited disclosure for inputs used and assumptions made to arrive at the issuer’s target confidence level;
 - The omission of related regulatory confidence levels (e.g. the confidence level required by the Prudential Authority); and
 - Disclosure of an incorrect accounting policy for reinsurance contracts (versus what was actually being done);
- Coverage units were disclosed generically for all lines of insurance business, despite the issuer offering a variety of insurance products;
- Incomplete disclosures for the key inputs used in the present value of future cash flow calculations (namely: mortality, morbidity, discount rates and coverage period inputs);
- The first five years of the insurance liabilities liquidity risk maturity analysis were over-aggregated;
- The method of ‘systematic allocation’ of insurance finance income and expenses to profit or loss was not disclosed; and
- Ambiguous disclosure indicating the use of a stochastic projection method when in fact the issuer used a deterministic projection method for estimating future cash flows.

Lastly, our review identified the following **areas of improvement**:



- Ambiguous wording which created an impression that certain types of financial products (that do not transfer significant insurance risk to the issuer) were inappropriately scoped into IFRS 17; and
- Disclosure of immaterial judgements and assumptions under "critical" judgements and assumptions.

3. Details of this limited scope review

3.1 Scope

IFRS 17 became effective for annual reporting periods beginning on or after 1 January 2023. In approaching our review, we were mindful of the complexities of the standard and looked to make a meaningful contribution to quality reporting. We did not undertake a thorough review of every aspect of IFRS 17. We are confident that insurers (and their auditors) have already mapped their AFS against detailed disclosure checklists.

We turned our attention to:

- a) How the new IFRS 17-based accounting policies were applied, particularly where accounting policy choices exist;
- b) What key judgements were made;
- c) What key estimates and assumptions were applied;
- d) What key inputs (including processes for estimating those inputs) were used; and
- e) How items (a) to (d) were disclosed in the AFS.

We reviewed the AFS rather than the interim financial statements, as the items under our consideration would largely be provided in the AFS.

3.2 Process

IFRS 17 focusses on the measurement of future cash flows and the associated insurance and financial risks. This area impacts long-term (life) insurers more than short-term (general) insurers. Consequently, we decided to direct our review effort towards life insurers. We looked for issuers that were primarily involved in the insurance business.

We undertook a deep dive into the items referred to in section 3.1 (above) with an initial sample of issuers. We had extensive engagements with the issuers in the sample. The written correspondence was generally supplemented with one-on-one meetings. This in-depth process was necessary because:

- IFRS 17 is a new standard with limited existing practice;
- Many of the identified issues were complex; and
- Matters frequently related to the specialised nature of insurance business and of the products sold by the issuers.

The key learnings from the deep dive were applied to four other issuers selected as part of our normal risk-based reviews whose business activities included substantial insurance products.

We are grateful to all involved for their considered responses and for the positive way that they approached our process. The engagements ensured that we gained a deep understanding of the matters at hand. This added to the richness of the reviews and has already contributed to improvements in disclosures.

3.3 Who did we review?

This report includes the findings from our review of the AFS of ten issuers.

The 10 issuers spanned across both equity and debt markets. Nine of the ten issuers were predominantly long-term (life) insurers with the remaining issuer being predominantly a short term (general) insurer. Their AFS spanned across financial years ended in 2023 and 2024.

At the date of this report, we had completed the reviews of eight issuers, including five of those selected for the initial 'deep dive'. The remaining two issuers are both at an advanced stage of the process. The findings below include those of the incomplete reviews only to the extent that items identified have been resolved.

4. Format of this report

This report highlights the findings from our review of IFRS 17. It provides details of our expectations for financial reporting in the target areas covered. We include examples to:

- Show how issuers responded to issues raised;
- Illustrate what appropriate disclosures could look like; and
- Help users understand the information they should expect to receive under IFRS 17.

For the examples:

- Good reporting is flanked with a trophy icon:
- Reporting that led to raising questions is flanked with a traffic light:



We split our findings into three categories:

- A) Findings which were relatively common amongst our sampled issuers - marked with the following symbol: 
- B) Findings that were less common, but are still important - marked with the following symbol: 
- C) Findings that relate to areas of improvement - marked with the following symbol: 

Our findings are discussed under separate headings below. Both categories A and B are relevant in their own right, with only commonality (not necessarily importance) leading to the difference in categorisation. This report also includes 'category C' findings, aimed at helping improve the overall quality of insurer's AFS.

For brevity purposes, only IFRS paragraph references are mentioned in section 5. The full extracts of the related IFRS paragraphs are included in Annexure A below, under the relevant finding heading.

Careful consideration of *both* categories A and B will help to address potential red flags.

5. Detailed findings: IFRS 17

5.1 Maturity analysis of the Contractual Service Margin



The Contractual Service Margin (“CSM”) represents the unearned profit on an insurer’s already written (in-force) contracts. CSM will be released to the income statement over the remaining life of the in-force book as services are provided.

What was good?

Issuers generally provided a long-term (10 years plus) maturity analysis of when they expect to recognise the CSM balance remaining at the end of the reporting period.

What was missing?

The time bands frequently used in the CSM maturity analysis were generally overly aggregated in the first 10 years of the maturity analysis. This approach obscures useful information about the pattern of release of the CSM in the short to medium term. Issuers agreed to provide more disaggregated information by either:

- Disaggregating their time bands for the first 5 years into annual time bands and disclosing a qualitative explanation of the expected pattern of release of the CSM balance for years 6 to 10 onwards; or
- Disaggregating the first 10 years of the maturity analysis into annual time bands; or
- Providing a qualitative explanation of the expected pattern of release of the CSM balance if there was a broadly linear pattern of release throughout the maturity analysis, for example:



“As the expected services are delivered in a relatively linear fashion, the aggregated time bands for the CSM maturity analysis reflects a broadly linear release pattern.”

Why it matters?

The release of CSM (unearned income) over time is a key driver of an insurers’ future profitability from its in-force policies. The release pattern may not be linear. Overly aggregated time bands in the CSM maturity analysis provide limited insights about the pattern of release of CSM balances, particularly in the short to medium term. Absent further disclosure, users would not be aware of any non-linearity in the pattern of release of the CSM balance. This brings into question compliance with the “appropriate time bands” requirement in IFRS 17.109.

Non-disclosure of an expected non-linear CSM-release may result in an incorrect projection of future earnings.

5.2 Concentration of insurance risk



What was good?

Issuers generally provided adequate qualitative disclosure of the variety of insurance risks they were exposed to and the methods by which they sought to mitigate those insurance risks.

What was missing?

Most issuers omitted entity-specific and useful summary quantitative information, per the requirements of IFRS 17.125, explaining:

- 1) Where the concentration of the insurance risk lies;
- 2) What the extent of the concentration in (1) is; and
- 3) The shared characteristic/s that identify each concentration in item (1), per IFRS 17.127.



All issuers with concluded reviews have agreed to provide the above summary quantitative information in their future AFS on both a gross and a net-of-reinsurance basis, per IFRS 17.BC348(b)(ii), which incorporate IFRS 4.38 and IFRS 4.39(c)(ii) into IFRS 17.

Why it matters?

An insurance business is, by its very nature, exposed to uncertain future events. Those events may disproportionately affect certain parts of the insured population, resulting in higher (or lower) losses than would be the norm. This is easy to conceptualise in the context of weather-related events or health-related epidemics. Disclosures of risk concentrations helps users understand whether such events (should they occur) have the potential to adversely affect the issuer's future financial results.

An example of concentration risk in a particular sub-risk category could be a situation where most insured properties are in one city that is prone to drought related wildfires - this exposes an insurer to significantly higher risk from a single event.

Example 1



There was disclosure of shared characteristics that identified concentrations of insurance risk (e.g. policyholders in the same geographical location or that generally worked in the same industry), but summary quantitative information was missing.

Example 2



One issuer disclosed, for its portfolios of life insurance policies in South Africa (measured under the general measurement model and the premium allocation approach), that: “It maintains a well-diversified portfolio of policies; and reinsurance is further used to protect against the concentration of risk.” However, no further summary quantitative information about this concentration of risk was provided.



In contrast, another issuer disclosed summary quantitative information showing their concentration of gross and net-of-reinsurance exposures using a graph wherein the (vertical) y-axis represented the number of lives insured (as a shared characteristic) and the (horizontal) x-axis represented the amount of the policy or benefits insured per individual life.

Example 3

In another case, the issuer’s qualitative disclosure discussed a group-wide governance and risk management framework that facilitated enhanced oversight and collaboration between business units and significantly improved the understanding and management of risk concentrations. The issuer disclosed the following business lines qualitatively:

- “Vehicles – Covers risks relating to the possession, use or ownership of a motor vehicle. This cover can include risks relating to vehicle accident, theft or damage to third-party property or legal liability arising from the possession, use or ownership of the insured vehicle.”
- “Buildings including contents – Covers risks relating to the use, ownership, loss of or damage to movable or immovable property other than a risk covered more specifically under another insurance contract. Policies including an extension for contingency business interruption cover, for both physical and non-physical damage, are included in the property class.”



After querying the matter with the issuer, it was agreed that the (above) business lines contained material concentrations of insurance risks. The issuer then subsequently disclosed summary quantitative information showing where the concentrations lie (i.e. the vehicles and the buildings including contents lines of business); to what extent (the gross and net exposures); and what the shared characteristics were (i.e. hail, storms, and fire and the geographical locations impacted).

5.3 Claims development tables

What was good?



Issuers generally provided long-term (up to 10 years) comparative disclosure in the traditional claims development tables (“**TCDT**”) for their general (non-life) insurance business lines.



Below is an extract of one such TCDT.

Claims development										
The presentation of the claims development tables is based on the actual date of the event that caused the claim (incident year basis). The claims development tables represent the development of actual claims paid for continuing operations.										
Estimates of claims (gross of reinsurance and undiscounted)										
31 December 2024		Claims paid in respect of (ie, incident year)								
R million	Total	2024	2023	2022	2021	2020	2019	2018	2017	2016
Reporting year										
At end of accident year		18 057	18 762	21 236	18 596	14 165	14 055	12 231	13 623	11 087
– one year later			23 382	27 269	25 209	19 097	18 006	15 898	18 250	15 119
– two years later				28 988	26 903	20 600	18 514	17 702	18 856	15 622
– three years later					27 401	21 283	18 756	17 908	19 032	15 866
– four years later						21 636	19 479	18 011	19 182	16 311
– five years later							19 547	18 924	19 282	16 373
– six years later								18 697	19 553	16 378
– seven years later									19 548	16 057
– eight years later										16 055
Cumulative payments to date		(13 300)	(21 661)	(27 514)	(25 896)	(20 767)	(19 005)	(18 299)	(19 087)	(14 559)
Gross cumulative claims liabilities – 2016 to 2024										
	13 223	4 757	1 721	1 474	1 505	869	542	398	461	1 496
IBNR – best estimate	3 366									
Effect of discounting	(859)									
Risk adjustment for non-financial risk ⁽¹⁾	790									
Creditors and debtors included in liabilities for incurred claims ⁽²⁾	1 692									
Gross liabilities for incurred claims	18 212									

What was missing?

TCDTs were not disclosed for qualifying Income Protection Policies (“IPPs”), such as disability insurance policies. For these product lines, the issuer (once the claim is approved) pays out monthly amounts to policyholders over many years. As there is uncertainty in how many years the payment can go on for (timing), there is uncertainty about the total amount that needs to be paid to the policyholder.

Certain issuers provided forward-looking liquidity risk-type of disclosure for their qualifying IPPs, which they argued was provided instead of a TCDT. We remind issuers that liquidity risk disclosure is a separate disclosure requirement under IFRS 17.132 and not a replacement for a TCDT.

IFRS 17.130 does allow an exemption from disclosing a TCDT if the uncertainty about the amount and timing of the claims payments is typically resolved within one year. The JSE noted that:

- The ‘one year’ time period refers to the time between the recognition of a claim, and the final settlement of the claim - and not from the date that a claim is submitted to when that claim is verified.
- TCDT disclosure is intended to reflect claims performance over time by cohort without offsets. Alternative disclosures that provide some insight into the extent of the uncertainty about the amount and timing of the IPPs claims payments do not serve as a sufficient substitute for the required TCDT disclosures.

All issuers with whom we have concluded our reviews have agreed on the technical requirement, per IFRS 17.130, to disclose a TCDT for their qualifying IPPs. Certain of these issuers were able to explain why their qualifying IPP books were immaterial to their AFS while others confirmed that their qualifying IPP books were material and thus confirmed the need to provide the disclosures in future periods.

Why it matters?

The purpose of a backward-looking TCDT is to allow users to see:

- Which year performed better / worse both from a claims instituted perspective and an estimation of those claims; and
- Whether there is a pattern in the way that adjustments are being made between incident years.

The TCDT gives users insights into both the uncertainty surrounding estimates about future claims and indicates whether the insurer has tended to over or under estimate ultimate payments.

5.4 Key assumptions in the measurement of life insurance contracts



What was good?

Issuers generally provided quantitative information about the inputs used in their discount rates. Issuers also disclosed the sources of their mortality and morbidity rates (being publicly available country-specific actuarial guidance tables).

What was missing?

Issuers typically disclosed (qualitatively) that surrender rates, lapse rates and paid-up rates were key assumptions in the measurement of life insurance contracts (collectively referred to as **“the 3 key assumptions”**). The concern was that:

- a) In certain instances, the methods and inputs used to estimate the 3 key assumptions were not provided; and
- b) The quantitative information about the 3 key assumptions was always omitted.

We noted that ‘quantitative sensitivity analysis’ disclosure is a separate disclosure requirement under IFRS 17.128. It does not replace or compensate for disclosures of quantitative information about the 3 key assumptions.

All issuers for which we have concluded our reviews on agreed to provide the disclosures referred to in items (a) and (b) above.

Most of these issuers agreed to disclose a range (with a lower and higher end) as opposed to an exact number and to include a weighted average where that range was wide. For practical purposes, this range will be at an aggregation level up to the issuer’s main lines of insurance businesses (as opposed to a single group-wide range). These ranges are also to be

accompanied with explanations of the inputs, methods and assumptions applied (including any specific exclusions and reasons thereto).

For one issuer, a fourth key omitted assumption was their expense inflation input, which they agreed to disclose quantitative information about going forward. Another issuer omitted to disclose the quantum (i.e. percentage) of their illiquidity premium included in their discount rate.

Why it matters?

A user's understanding of the 'base line' is important for understanding sensitivity analysis disclosure. The baseline information allows the user to make their own assessment as to the likelihood of the impact of the percentage-variances disclosed in an issuer's sensitivity analysis.

By way of example, if an entity's lapse and surrender rates are already high, e.g. a weighted average of 20%, then a 10% change may not be likely. The same conclusion may not be reached if the weighted average lapse rate is at 1%.



The extract below (whilst it can be improved to show weighted averages for the wide ranges and reasons for specific exclusions) represents a step forward in disclosing quantitative information about the 3 key assumptions for the issuer's life insurance businesses.

The lapse and surrender rates are assumed to range between 2.8% and 17.6% for the SA Life Risk (GMM) portfolio (2024: 2.5% to 18.4%), up to 3.0% for the SA Invest Risk (GMM) portfolio (2024: up to 3.0%), between 2.3% and 11.0% for the SA Invest Participating (VFA) portfolios (2024: 2.2% to 11.9%), and between 1.4% and 11.0% for the UK Life Risk (GMM) portfolio (2024: 1.6% to 11.9%). The disclosed ranges for the GMM portfolios represent the API-weighted average assumptions and for the VFA portfolio represent asset-weighted assumptions. Both are based on the in-force book exposure over the past 12 months and reflect the key attributes considered in setting assumptions. The ranges exclude funeral business, policies cancelled from inception, policy alterations, and, for the VFA portfolio, paid-up assumptions.

5.5 Disclosure of accounting policy choices



What was good?

Issuers generally provided detailed accounting policy information in relation to IFRS 17.

What was missing?

IFRS 17 (read with a relevant IFRIC agenda decision and a Transition Resource Group paper) contains various accounting policy choices for insurers. Instances of non-disclosure of policy choices were identified across issuers for the following:

- a) *IFRS 17.81*: A choice to disaggregate the non-financial risk adjustment between the insurance service result and insurance finance income or expenses or to include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.

- b) *October 2023 IFRIC agenda decision*: Where intermediaries are used to collect premiums on behalf of the issuer, issuers have a choice (in measuring groups of insurance contracts) to remove such premiums from the contract boundary when the cash flows (associated with those premiums) are either:
- Recovered by the insurer in cash from the intermediary; or
 - When the end-policyholder's obligation under the insurance contract is discharged (i.e. when the policyholder pays the intermediary).
- c) *Agenda Paper (ref 01) prepared for the IFRS 17 Transition Resource Group and titled "Insurance risk consequent to an incurred claim"*: A choice of whether the entity's obligation to pay amounts subsequent to an incurred claim that are subject to insurance risk should be treated as either a liability for:
- Incurred claims; or
 - Remaining coverage.

Furthermore, the example below illustrates how disclosure wording created the impression that an accounting policy choice needed to be made for item (b).

Example: The issuer disclosed that "As the largest portion of the Group's new business *premiums* arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent *intermediaries*. "



On enquiry, this issuer indicated to us that it does *not* allow intermediaries to collect premiums on its behalf.

They agreed to remove this disclosure from their future AFS.



Why this matters?

Incorrect disclosures affect the:

- Presentation of an insurer's statement of profit or loss (item (a));
- Measurement of the affected insurance contract liabilities (item (b)); and
- Measurement of the two respective liabilities, which represent different types of insurance exposures (item (c)).

5.6 Premium allocation approach: eligibility disclosures



There were two findings relating to the PAA measurement model.

5.6.1 Ambiguity regarding the level at which materiality is assessed

What was the issue?

The issuer disclosed that:

- a) “At each projection point, the difference between the liability or asset for remaining coverage under the PAA and GMM is determined (“**the difference**”)”;
- b) “The difference is compared to the pre-determined materiality threshold (relative measure) at each point in time”; and
- c) “Judgement will be applied to define relative materiality thresholds for *each portfolio* based on ensuring that the combined absolute impacts of all groups of insurance contracts with coverage periods longer than a year applying the PAA, falls within an absolute measure of materiality for each future year.”



The wording “each portfolio” in item (c) implied that the difference is compared to a materiality threshold that may have been calculated across various groups-of-contracts. If so, such an approach would be contrary to IFRS 17.53(a).

Why this matters?

Applying an incorrect level of materiality threshold (e.g. a materiality threshold calculated at a higher portfolio level) to a group of contracts (i.e. a lower level) could result in non-eligible contracts being incorrectly measured under the PAA (as opposed to the GMM). This, in turn, results in an incorrect measurement of the issuer’s insurance contract liability.

The issuer confirmed that it tests the difference to a materiality threshold calculated at a specific group of insurance contracts level as opposed to materiality threshold calculated across various groups of contracts.



The issuer agreed to amend the wording in item (c), above, in its future AFS to clearly refer to ‘each group’ (as opposed to ‘each portfolio’).

5.6.2 Testing the eligibility of the PAA: judgements and assumptions not disclosed

What was the issue?



The issuer disclosed an accounting policy that aligned with the wording in IFRS 17.53(a). The policy did not, however, disclose any related entity-specific judgements and assumptions related to the ‘reasonable expectation’ test required by IFRS 17.53(a).

Why does it matter?

The PAA may be applied to contracts with a coverage period of more than one year if specified eligibility criteria are met. The eligibility criteria are important because the simplifications included in the PAA model mean that this model is an inappropriate measurement model for contracts that have higher levels of uncertainty. This assessment typically involves significant judgement due to the 'reasonable expectation' requirement in IFRS 17.53(a). Disclosure of the entity-specific judgements and assumptions (per IFRS 17.117(a)) allows users to understand the basis and appropriateness of the classification of its insurance and/or reinsurance contracts for measurement using the PAA.



The issuer agreed to include additional wording clarifying the scope of when it applies the PAA together with its judgements and assumptions used in testing the eligibility of the PAA to its reinsurance contracts.

The issuer also confirmed that it did *not* have any insurance contracts that it applied the PAA to. Instead, it only applied the PAA to in-substance reinsurance contracts arising from cell captive arrangements

5.7 Level of assessment of grouping of contracts



What was the issue?



There were several instances where disclosure was unclear regarding the level of assessment for grouping contracts into annual cohorts.

Why this matters?

The level of assessment for the purposes of grouping insurance contracts into 'onerous', 'profitable' and the 'remaining' categories and then subsequently into annual cohorts is an important component in measuring insurance contracts. This is because it prevents:

- Old contracts from subsidising new contracts; and
- Profitable contracts from offsetting (and therefore obscuring) onerous contracts.

Affected Issuers agreed to clearly disclose their level of assessment for grouping contracts into annual cohorts as well as to disclose their criteria used to establish a 'set'.

IFRS 17.17 allows for the above grouping to be assessed at either an individual contract level or at a multiple contract level (referred to as a set-of-contracts level). The level of assessment becomes more judgemental when contracts are assessed for grouping purposes at a set-of-contracts level. This is because a few contracts in that set could be onerous and could potentially be grouped with profitable contracts, causing offsetting. Therefore, we expected clear disclosure including what criteria are utilised to establish a 'set', per IFRS 17.17 and IFRS 17.117(a).



The disclosure below is useful as it is clear that this issuer performs the assessment at both levels including its criteria to establish a set of contracts.

Level of aggregation of insurance contracts

The Group manages insurance contracts issued by product lines within an operating segment. Insurance contracts within a product line that are subject to similar risks and are managed together are aggregated into a portfolio of contracts. Each portfolio is further disaggregated, by considering either the individual contracts or a set of contracts, into groups of contracts that are issued within a calendar year (annual cohorts) and are (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. Profitability assessment is only performed at a set of contracts level where reasonable and supportable information exists to conclude that a set of contracts will have homogeneous profitability. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. Such groups are not subsequently reconsidered.

5.8 ‘Certain’ future cash flows and allocation methods not explained



What was the issue?



The issuer disclosed that it estimates certain Future Cash Flows (“FCF”) at the portfolio level or higher and then allocates such estimates to groups of contracts.

In terms of IFRS 17.117(a), we questioned the issuer about:

- What the “certain” FCF relates to; and
- How it allocates those FCFs to groups of contracts.

Why this matters?

It is important for a user to understand:

- Why (by virtue of their nature) certain cash flows within the Present Value (“PV”) of FCF are estimated at a portfolio level versus at the (default) group of contracts level; and
- The basis upon which these ‘certain’ cash flows are allocated to groups of contracts. This information informs profitability of individual product lines.

The PV of FCF forms one of three components in the measurement of the insurance contract liability of a group of contracts. The other two components being the “risk adjustment” and the CSM balance. The CSM (unearned profit) is determined by reference to FCF.



The disclosure below appropriately addresses the concerns in items (a) and (b).

The Group estimates certain FCF at the portfolio level or higher and then allocates such estimates to groups of contracts. IFRS 17 requires the inclusion of an allocation of fixed and variable overheads in FCF. Most overheads are, by their nature, not directly attributable to specific portfolios of insurance contracts, consequently they must be allocated to portfolios on appropriate bases.

These bases are specific to each portfolio and are generally volume based, for example:

- New business policy volumes
- In-force policy volumes
- Premium flows

IFRS 17 further allows fulfilment cash flows to be estimated at a higher level of aggregation than the profitability group, but then requires that the resulting fulfilment cash flows be allocated to each group of contracts. The items requiring allocation include actual cash flow amounts for premiums, benefits, acquisition and maintenance costs, tax cash flows specifically chargeable to the policyholder and investment components. These amounts need to be allocated to groups as they are only available at a product or portfolio level in the underlying financial records. This allocation is done using projected cash flows from the start of the period, adjusted for the actual closing position and new business written over the period. Where transactional data extracts from policy administration systems are available, these are used to do the allocations.

5.9 Insurance contracts with direct participation features



What was the issue?

In two instances, issuers disclosed that they write insurance contracts with direct participation features. In terms of the definition of “insurance contracts with direct participation features” (in Appendix A to IFRS 17) we would have expected to also see disclosure of quantitative information about the threshold used for making its ‘substantially investment-related’ judgement call, per IFRS 17.117(a).

Why this matters?

Insurance contracts that qualify to be classified as ‘insurance contracts with direct participation features’ are measured using the Variable Fee Approach (“**VFA**”) as opposed to the General Measurement Model (“**GMM**”) per IFRS 17.B110. Simplistically:

- VFA creates and releases profit by reference to a portfolio of underlying assets; versus
- For GMM, profit is recognised by reference to insurance services provided, per IFRS 17.B72(b).

As CSM is one of the components of the insurance contract liability, an incorrect classification of the insurance contract under VFA (as opposed to the GMM) affects the measurement of both the carrying amount of the issuer’s insurance contract liability amount at the end of the reporting period and the amount of CSM recognised in profit or loss during the period.



An issuer disclosed (below) their ‘substantially investment-related’ quantitative threshold for measuring Insurance contracts with direct participation features under the VFA.

The Group applies judgement to determine whether the entity expects to pay the policyholder an amount equal to a substantial share of the fair value returns on the underlying items and whether the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Group applies a 0% and a 20% investment return scenario to the underlying items and observes whether the amount of policy benefits change significantly between the scenarios. An increase of at least 50% in the amount of policy benefits indicates that direct participation features are present in the insurance contract. Such insurance contracts are accounted for in terms of the variable fee approach.

5.10 Non-performance risk



Why is this important?

In the context of reinsurance contract assets, non-performance risk is the risk that a reinsurer may not be able to fulfil its obligations on reinsurance contracts (that back the issuer’s insurance contracts issued) in the event of an insurance claim by the issuer.

IFRS 17.63 requires issuers to include (in their estimates of the PV of the future cash flows for the group of reinsurance contracts held) the effect of any risk of non-performance by their reinsurer(s), including the effects of collateral and losses from disputes.

Deficiencies in the disclosure about non-performance risk could lead to users forming incorrect views (for their own valuation/risk modelling) on the quantum of non-performance risk faced by the issuer.

5.10.1 Inconsistencies in credit quality information

An issuer disclosed that “As far as possible, credit risk in respect of reinsurance is managed by placing the Group’s reinsurance only with subsidiaries of companies that have international ratings of no less than A.”



The above statement appeared to be inconsistent with a reinsurance credit risk ratings table (presented elsewhere in their AFS), which showed that only 2% of reinsurance contract assets had a credit risk rating of ‘A’, with the balance being split:

- 76% as not-rated; and
- 22% as ‘other’.

We challenged the issuer about this inconsistency. The issuer agreed to include the correct reinsurance credit risk ratings table in its future AFS.



The issuer acknowledged that it had included an incorrect credit risk rating table for its reinsurers. The issuer committed to implementing additional reporting controls to prevent this error from re-occurring.

5.10.2 Incomplete information to assess credit quality



An issuer disclosed its definitions of various credit risk ratings (e.g. AAA; AA etc) for its reinsurance contract assets. This disclosure does not explain where the actual concentrations of credit risk lie. Therefore, the issuer did not appropriately address the requirement in IFRS 17.131(b).



In contrast, another issuer provided additional disclosure (below) which appropriately explained the credit quality (by concentration) for its reinsurance contract assets.

Credit Risk Exposure:

The following table provides information regarding the aggregated credit risk exposure relating to reinsurance contracts at 30 June:

(R'000)	A1+	A1	A1-	B	Not rated	Total carrying value
2025						
Reinsurance Contract Assets	384,848					384,848
Carrying Amount Reinsurance Contract Assets¹						384,848
2024						
Reinsurance Contract Assets	71,674					71,674
Carrying Amount Reinsurance Contract Assets						71,674

5.10.3 Maximum exposure to credit risk



An issuer had disclosed in one note that the maximum exposure to credit risk from reinsurance contracts was a given Rand value – **item (a)**. However, in another note it disclosed that the carrying amount of its reinsurance contract assets was 10 times higher – **item (b)**.

In terms of IFRS 17.131(a), we were uncertain how item (b) could exceed item (a), when item (a) is meant to be the ‘maximum’.



The issuer agreed (going forward) to disclose that there is future maximum credit risk exposure on the higher amount.

5.11 Confidence level disclosures



Why is this important?

A confidence level reflects the compensation that the issuer would require for bearing non-financial risk. In other words, based on the premiums it charges, the issuer is (for example) 70% confident that its insurance contracts will be profitable.

The confidence level is used as a key input into the risk adjustment for non-financial risk. The risk adjustment for non-financial risk is one of the three components of an insurance contract liability, with the other two being the PV of future cash flows and the CSM balance. Therefore, disclosure deficiencies relating to the confidence level can affect a user’s own assessment of the risk adjustment for non-financial risk and consequently a user’s expectation of the insurance contract liability.

5.11.1 Limited disclosure of inputs used, assumptions made and processes followed



An issuer disclosed its confidence level (i.e. 70%) used to determine the risk adjustment for non-financial risk, as required by IFRS 17.119. However, the disclosure related to the inputs used and assumptions applied (per IFRS 17.117(a)) to arrive at this target confidence level were very limited.



The extract below provides information about the inputs used and assumptions applied to arrive at an applied target confidence level.

The risk adjustment for non-financial risk is determined using a confidence level technique based on regulatory solvency stresses. Applying this technique, the Group estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows. 75% has been selected as this aligns to the compensation required by the Group for bearing risk implied by the cost of non-hedgeable risk allowance in the market consistent embedded value calculations.

The confidence level is calculated using appropriately calibrated loadings applied to best estimate assumptions, with the loadings calibrated as a percentage of the solvency stresses for non-financial risk and modelled as a single equivalent scenario at a contract level. The confidence level applies at a Group level as the risk adjustment is correct at a total group level (even though the shocks are applied at a contract level and rolled up to portfolio level) due to allowing for the diversification factors in the risk adjustment shocks applied that allows for the portfolio level diversification in relation to the Group level diversification. The 75% confidence level is consistent with both the Group methodologies and regulatory required methodologies.

5.11.2 No disclosure linking the issuer's confidence level to regulatory frameworks

In another instance, we queried the issuer's non-disclosure of inputs and assumptions applied to arrive at its target confidence level. The issuer responded by explaining that (inter alia) its target confidence level of 80% (representing approximately a 1 in 8-year event) is set at a higher risk appetite level than the '1 in 200-year event' (i.e. 99.5%) regulatory requirement in the own risk and solvency assessment ("ORSA").

ORSA is included in the Prudential Authority's Solvency Assessment Management framework. Therefore, in terms of IFRS 17.126 we would have expected disclosure about the (above) regulatory requirement.



The issuer agreed to disclose in its future AFS that:

"The regulatory requirement in the own risk and solvency assessment ("ORSA"), is a 99.5% confidence interval, based on a 1 in 200-year event. The Group moved from a 1 in 200-year to a 1 in 8-year event, based on the Group's historical experience, which is more conservative than the ORSA requirement."

5.11.3 Incorrect accounting policy disclosed

An issuer admitted to disclosing an incorrect accounting policy for its confidence level related to its reinsurance contracts held. The issuer agreed to correct the accounting policy in its future AFS.

5.12 Generic coverage units



Why this matters?

Coverage units inform users of the issuer's basis upon which the CSM balance is released to the statement of profit or loss for each reporting period. These bases can vary depending on the nature of the line of insurance business.

What was the issue?

One issuer included the following generic description of its coverage units for *all* of its lines of businesses:



"Coverage units represent our readiness to render insurance contract services. The measurement of coverage units considers the quantum of the insurance benefits as well as the expected coverage period of the insurance contract."

IFRS 17.B119(a), read with IAS 1.117C, requires disclosure of useful entity-specific information. Given the issuer's varied portfolios of insurance products, the disclosure (on the left) did not achieve that objective.



In contrast, another issuer provided the following table summarizing the nature of coverage units used per product type.

Coverage units		
The Group makes use of various coverage units in accounting for insurance contracts and reinsurance contracts. The following table includes examples of the nature of some of the coverage units applied by the Group:		
Insurance contracts		Reinsurance contracts
Type of insurance contract	Type of coverage unit	
Annuities	Annuity payments	Annuity payments, sum at risk
Long-term savings products	Fund value, sum assured	Sum assured
Protection products	Fund value, sum assured	Sum assured
Traditional products	Fund value, sum assured	Sum assured, sum at risk



5.13 Inputs into the present value of future cash flows

Why is this important?

Mortality, morbidity, discount rates and the coverage period are key inputs into the estimation of future cash flows for life insurance contracts. The PV of future cash flows is one of the three components used in estimating an insurance contract liability. Therefore, we expected to see detailed disclosure of the issuer's processes for estimating these inputs, per IFRS 17.117(a). This allows users to assess how the issuer arrived at these inputs and consequently better understand how the issuer's estimate could potentially differ from their (user's) own estimate.

5.13.1 No process disclosed for countries with no available actuarial guidance tables



One issuer disclosed that "Mortality and disability cover are material in South Africa with actuarial guidance tables available in this country. For other countries, assumptions are solely based on experience and expectations for changes in future experience."

The above disclosure (whilst it explains the basis of assumptions) did not adequately explain the process for estimating mortality and morbidity inputs in countries where no actuarial guidance tables were available, per IFRS 17.117(a).



The issuer agreed to disclose its process for estimating the mortality and morbidity inputs for countries where mortality and morbidity actuarial tables are not available.

5.13.2 Mortality and morbidity inputs not reflective of the perspective of the issuer



The issuer disclosed that mortality and morbidity assumptions are based on reinsurer rates.

We were uncertain (in terms of IFRS 17.33(b)) how the issuer's estimate of future cash flows (into which mortality and morbidity rates are key inputs) reflected the perspective of the issuer (itself), as opposed to the reinsurer.

The issuer agreed to bridge the gap between its view on these inputs and those of the reinsurer in its future AFS through the disclosure on the right.



"The reinsurance rates are tested against the actual observed experience of the Group. Where rates deviate significantly from the Group's experience, these are revised during the repricing exercise. There is ongoing monitoring, where actual to expected claims are assessed against the reinsurance rates, with outcomes of the assessments being presented and reviewed by various board sub-committees."

5.13.3 Incomplete disclosure of methods and assumptions related to discount rates



Whilst the issuer had disclosed that its estimates of future cash flows are adjusted using the current discount rates, it did not disclose that these discount rates differ between groups or even different cash flow types of insurance contracts due to the characteristics, nature and uncertainty of the cash flows involved.



In terms of IFRS 17.117(c)(iii), the issuer agreed to provide the above omitted (method-related) disclosure together with the following assumption applied:

"By discounting expected linear cash flows (e.g. expected expenses) at market rates and by using a risk-neutral valuation for non-linear risks (e.g. investment guarantee reserves) uncertainty in these are allowed for appropriately."

5.13.4 Expected coverage period: limited disclosure of assumptions



Determining the expected coverage period is likely to involve judgement. Whilst the issuer disclosed its inputs and method used to estimate the coverage period, there was no disclosure of its related assumptions made, per IFRS 17.117(a).

The issuer agreed to disclose that "The coverage period allows for full expected runoff of the cohort based on the valuation assumptions. The coverage units in each month will be the benefit payments that the Group stands ready to pay in that month, subject to any term restrictions. The coverage units are reviewed and updated at each reporting date."



5.14 Insurance liabilities liquidity risk maturity analysis



The issuer disclosed an over-aggregated “1 - 5 years” column in its liquidity risk maturity analyses for its policyholder business measured under the General Measurement Model.

IFRS 17.132(b) requires such a maturity analysis to be disclosed annually for each of the first five years after the reporting date and in aggregate beyond the first five years.

Why this matters?

A user’s understanding of an issuer’s liquidity risk in the short to medium term is important for assessing the going concern status of an entity.

The better a user’s understanding of an issuer’s liquidity risk (through more disaggregated disclosure), the more accurate the user’s going concern assessment can be.



The issuer agreed to disaggregate the “1 to 5” year column on an annual basis in its future AFS.

5.15 Method of ‘systematic allocation’ not disclosed



The issuer had elected to disaggregate Insurance Finance Income or Expenses (“IFIE”) between profit or loss and other comprehensive income and then to present in profit or loss, IFIE using a systematic allocation on its long-term life insurance business lines.



The issuer did not, however, provide an explanation of the above ‘systematic allocation’ method, as required under IFRS 17.118.

Why this matters?

The two key subtotals on the statement of profit or loss that ultimately reflect an issuer’s results from insurance contracts are:

- Insurance service results; and
- Insurance investment results.

Insurance investment results are affected by the ‘systematic allocation’ method because IFIE is generally a material contributing line item to this subtotal.



The issuer agreed to disclose the following explanation:

“In disaggregating the IFIE using systematic allocation, the Group applies the guidance of a group of insurance contracts where the financial risk has a substantial effect on the amount paid to policyholders, most notably changes in assumptions of inflation. The systematic rate allocates the remainder of the revised IFIE over the remaining duration of the group of contracts, i.e. effective yield approach.”

5.16 Stochastic projections versus deterministic projections of estimated future cash flows



In relation to estimates of future cash flows, the issuer disclosed that “The estimates are based on a probability-weighted mean of the full range of possible outcomes, determined from the perspective of the group.”



Whilst the above wording is aligned to the language used in IFRS 17.33(a), this disclosure (alone) does not provide clarity as to whether the issuer adopted a:

- Scenario-based method of estimating its cash flows (i.e. stochastically modelling future cash flows) or
- Deterministic model (i.e. the best estimate assumptions are determined using probability-weighted estimates of past experience, taking into account expected future experience where necessary).

Why this matters?

If a stochastic model was used, users would have expected additional disclosure (in terms of IFRS 17.117(a)) about:

- a) The types of scenarios applied (e.g. a high, medium and low road) together with their respective probabilities as well as key assumptions; and
- b) The key inputs into the scenarios in item (a).

The issuer agreed to disclose the following wording to clarify that it in fact applies the deterministic model:



“The determination of the future experience estimates is based on the appropriate statistical techniques applied to historical experience. In addition, the relevance of these estimated outcomes were assessed and in exceptional circumstances (where it is highly probable that future experience is likely to deviate from the historical experience) judgement is applied to adjust these future cash flows.”

5.17 Immaterial judgements and assumptions as ‘critical’ judgements and assumptions



Why is this important?

Including immaterial information with ‘critical’ judgements obscures material information. It also leads to unfounded expectations of related disclosures.

5.17.1 Loss Recovery (“LRC”) ratio



The issuer disclosed that it “applies judgement in determining the LRC ratio. The LRC ratio is determined as the present value of the future expected claims recovery cash

flows of the group of reinsurance contracts held divided by the present value of the future expected claims cash flows of the underlying insurance contracts.”

We queried why no quantitative information was disclosed about the inputs used in estimating the LRC ratio (per IFRS 17.117(a)).

The issuer responded that LRC ratio was not material to its AFS.



Accordingly, the issuer agreed to remove the LRC ratio from its ‘critical judgments and assumptions’ disclosure going forward.

5.17.2 Discretionary participation features with direct participation features



The issuer disclosed that "A number of insurance and investment contracts contain a discretionary participation feature."

The issuer responded that contracts issued that have discretionary participation features but without direct participation features are immaterial to its AFS.

We queried the non-disclosure of the inputs, methods and assumptions used to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features, per IFRS 17.117(c)(i).



The issuer agreed to disclose (in its future AFS) that such contracts are immaterial.

5.17.3 “Other disputes” in non-performance risk



The issuer disclosed, as a material accounting policy, that for reinsurance contracts held, “the present value of future cash flows include the potential credit losses and other disputes with the reinsurer to reflect the non-performance risk of the reinsurer.”

We questioned why there was no disclosure of the inputs, methods and assumptions for the ‘other disputes’ aspect of the non-performance risk adjustment, per IFRS 17.117(a).

The issuer responded that disclosure references to “other disputes” was used generically and was not valid.



Consequently, the issuer agreed to remove the reference to “other disputes” from its policy related to non-performance risk.

5.17.4 Liquidity risk



The issuer disclosed that “There is an immaterial liquidity risk on the whole-of-life insurance portfolio”.

The issuer responded that the same considerations and conclusions regarding immaterial liquidity risk apply equally to term-of-life policies.

We questioned why there was no liquidity risk disclosure for the *term-of-life* insurance portfolio, per IFRS 17.132(b).



The issuer agreed to disclose in its future AFS that “There is an immaterial liquidity risk on the *life insurance portfolio* given that the products... .”

5.17.5 Premium allocation approach

This issuer disclosed that “As permitted in IFRS 17, the Group has elected to apply the PAA to measure a group of insurance contracts issued or reinsurance contracts held if, at the inception of the group:

- a) The coverage period of each contract in the group of insurance contracts is one year or less, or
- b) The Group reasonably expects that the PAA would produce a measurement of the LRC for a group of insurance contracts that would not differ materially from the measurement achieved by applying the GMM.”



We questioned the issuer about the non-disclosure of its basis and assumptions for the ‘reasonable expectation’ judgement call in item (b), per IFRS 17.117(a).

The issuer responded that PAA-accounted contracts that fall into item (b) are immaterial

We asked the issuer to reconsider the necessity of referring to such (immaterial) contracts in its accounting policies note in its future AFS.

In another similar case, the issuer responded that it did not have any portfolios of insurance contracts to which it applies the PAA. Instead, it only applied the PAA to portfolios of reinsurance contracts held.



The issuer agreed to disclose additional wording in its subsequent AFS to clarify this aspect.

5.18 Scoping concerns



Why is this important?

There were instances where the wording in the AFS created the impression that certain types of financial products (that do not transfer significant insurance risk to the issuer) were inappropriately scoped into IFRS 17. Such an approach has implications for the measurement of these contracts. Fortunately, our queries revealed that the concern was limited to wording issues - hence our inclusion of the matters as areas for improvement in this report.

We discuss the four instances below to raise awareness of the importance of using appropriate wording for scoping contracts into or out of IFRS 17 (in terms of IFRS 17.3(a) and the definition of insurance contracts in appendix A of IFRS 17).

5.18.1 Instance A



The issuer disclosed that participating contracts “Comprises mainly unit-linked retirement annuities and endowments which have a return of contribution on death.”

As ‘participating contracts’ was one of the reportable groups into which this issuer had aggregated its IFRS 17 insurance disclosure, this disclosure indicated to us that all of the issuer’s retirement annuities (“**RAs**”) and all of its endowment contracts were accounted for under IFRS 17.

The issuer confirmed that it has several endowment products and RAs with different features resulting in some being scoped into IFRS 17 while others fall into IFRS 9.



The issuer agreed to provide the following scope-clarification disclosure in its future AFS:

“The group applies judgement as to whether there is significant insurance risk under the terms of contracts issued. For example, certain retirement annuities and endowment contracts issued by the group meet the definition of significant insurance risk where the group guarantees a return of contributions as the minimum death benefit, i.e. the higher of the policyholder’s original contribution or the unit value. These contracts in certain circumstances can expose the group to significant insurance risk as, following a period of poor investment returns, the death benefit of the minimum return of contributions may be significantly higher than the value of the investment account. This therefore creates the risk of paying significant additional amounts to the investment value on death.”

5.18.2 Instance B



The issuer regarded its guaranteed endowment policies to be financial liabilities at fair value through profit or loss under IFRS 9.

We queried the above approach in terms of IFRS 17.B9. The issuer confirmed that if the policyholder dies before the maturity date, only the premiums, plus investment return accrued up to the date of death, are paid to the beneficiary, as a death surrender.

The issuer's response meant that the set guaranteed amount upon maturity (e.g. after 5 years based on the fixed deposit rates obtained from major banks, with adjustments for the issuer's fees) is not paid out upon death.

We ask the issuer to reconsider the appropriateness of referring to such an endowment policy as a "*guaranteed endowment policy*" in its future AFS when in fact it is not guaranteed in the event of death.

5.18.3 Instance C

The issuer disclosed in its AFS that:

- The Group issues investment contracts without fixed benefits (e.g. unit-linked products); and
- Investment contracts without fixed benefits are financial liabilities (i.e. scoped into IFRS 9).



In contrast in another note, the issuer disclosed that "Investment contracts: Unit-linked..." are measured using the variable fee approach (i.e. scoped into IFRS 17)

We queried the above inconsistency with the issuer.

The issuer confirmed that:

- a) Certain unit-linked contracts, e.g. vanilla unit-linked contracts, meet the definition of financial liabilities and are included in the scope of IFRS 9 as those contracts transfer no significant insurance risk to the issuer; and
- b) Certain unit-linked contracts which the issuer issues, includes features and benefits which result in the contracts transferring significant insurance risk (in addition to the transfer of financial risk) to the issuer and are thus included in the scope of IFRS 17.

The issuer agreed to refer to the unit linked contracts in item (b) as "unit linked insurance contracts" in its subsequent AFS for the purpose of clarity.



5.18.4 Instance D

The disclosure (below) from one issuer indicated to us that it issues multi-component contracts. This implies that the issuer would need to weight its combined monthly premiums due from policy holders between the different components. This 'weighting exercise' typically involves judgment.



“For some insurance contracts without direct participation features, the Group performs investment activity to generate an investment return included in an investment component or amount the policyholder has a right to withdraw.”

We questioned the issuer on our expected disclosure (per IFRS 17.117(c)(v)) of:

- The approach used to determine the relative weighting of the potential single monthly (combined) premium between the investment and insurance components; and
- How it measures the investment return.

The issuer confirmed that the investment components in these insurance contracts are distinct (per IFRS 17.11(b)). Therefore, the investment components are separated from the insurance contracts and scoped into IFRS 9.



The issuer agreed to disclose a further explanation in its future AFS that the investment component (mentioned above) is distinct and separated from the insurance contract.

Annexure A: Extracts of relevant IFRS paragraphs

1. Maturity analysis of the Contractual Service Margin

IFRS 17.109 states that: “For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss quantitatively, in appropriate time bands. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.”

2. Concentrations of insurance risk

IFRS 17.124 states that “For each type of risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

- a) the exposures to risks and how they arise;
- b) the entity’s objectives, policies and processes for managing the risks and the methods used to measure the risks; and
- c) any changes in (a) or (b) from the previous period.”

IFRS 17.125 states that “For each type of risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

- a) summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the entity’s key management personnel.
- b) the disclosures required by paragraphs 127–132, to the extent not provided applying (a) of this paragraph.”

IFRS 17.127 states that “An entity shall disclose information about concentrations of risk arising from contracts within the scope of IFRS 17, including a description of how the entity determines the concentrations, and a description of the shared characteristic that identifies each concentration (for example, the type of insured event, industry, geographical area, or currency).”

IFRS 17.BC348 states that “The Board used the disclosure requirements in IFRS 4, including the disclosure requirements in IFRS 7 Financial Instruments: Disclosures that are incorporated in IFRS 4 by cross-reference, as a basis for the requirements in IFRS 17. This is because stakeholders have indicated that such disclosures provide useful information to users of financial statements for understanding the amount, timing and uncertainty of future cash flows from insurance contracts. The disclosure requirements brought forward from IFRS 4 include information about:

- IFRS 17.BC348(b)(ii): “the nature and extent of risks that arise from insurance contracts, including...concentrations of risk (see paragraph 127 of IFRS 17)... .”

IFRS 4.38 states that “An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.”

IFRS 4.39(c)(ii) states that “To comply with paragraph 38, an insurer shall disclose...information about insurance risk (both before and after risk mitigation by reinsurance), including information about... concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of insured event, geographical area, or currency).”

3. Claims development tables

IFRS 17.130 states that “An entity shall disclose actual claims compared with previous estimates of the undiscounted amount of the claims (i.e. claims development). The disclosure about claims development shall start with the period when the earliest material claim(s) arose and for which there is still uncertainty about the amount and timing of the claims payments at the end of the reporting period; but the disclosure is not required to start more than 10 years before the end of the reporting period. The entity is not required to disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. An entity shall reconcile the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts, which the entity discloses applying paragraph 100(c).”

IFRS 17.132 states that “For liquidity risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

- a) a description of how it manages the liquidity risk.
- b) separate maturity analyses for portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 and paragraphs 69–70A. The analyses may take the form of:
 - i) an analysis, by estimated timing, of the remaining contractual undiscounted net cash flows; or
 - ii) an analysis, by estimated timing, of the estimates of the present value of the future cash flows.
- c) the amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related portfolios of contracts, if not disclosed applying (b) of this paragraph.”

IFRS 17.BC348(b)(iv) “The disclosure requirements brought forward from IFRS 4 include: information about claims development (see paragraph 130 of IFRS 17);”

IFRS 4.BC221 states that “In the US, disclosure of claims development is generally presented in management’s discussion and analysis, rather than in the financial statements. However, this disclosure is important because it gives users insights into the uncertainty surrounding estimates about future claims, and also indicates whether a particular insurer has tended to

overestimate or underestimate ultimate payments. Therefore, the IFRS requires it in the financial statements.”

4. Key assumptions in the measurement of life insurance contracts

IFRS 17.117 states that: “An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

- a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.”

IFRS 17.128 states that “An entity shall disclose information about sensitivities to changes in risk variables arising from contracts within the scope of IFRS 17. To comply with this requirement, an entity shall disclose:

- a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk variables that were reasonably possible at the end of the reporting period:
 - i) for insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; ...
- b) the methods and assumptions used in preparing the sensitivity analysis; and
- c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.”

5. Disclosure of accounting policy choices

IFRS 17.81 states that “An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.”

An October 2023 IFRIC agenda decision explained that IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash. Therefore, the IFRIC observed that, in accounting for premiums receivable from an intermediary, an insurer develops and applies an accounting policy in accordance with IAS 8 to determine when cash flows are removed from the measurement of a group of insurance contracts. The insurer could determine that cash flows are removed from the contract boundary when the cash flows are either:

- a) Recovered by the insurer in cash from the intermediary; or
- b) When the end-policyholder’s obligation under the insurance contract is discharged (i.e. when the policy holder pays the intermediary).

Agenda Paper (ref 01) prepared for the IFRS 17 Transition Resource Group and titled “Insurance risk consequent to an incurred claim” that was released in September 2018 states

(in summary) that an entity has a policy choice to classify the entity's obligation to pay amounts subsequent to an incurred claim that are subject to insurance risk as either:

- a) a liability for incurred claims; or
- b) a liability for remaining coverage.

6. Premium allocation approach: eligibility disclosures

6.1 Ambiguity regarding the level at which materiality is assessed

IFRS 17.53(a) states that "An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

- a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52;"

6.2 Testing the eligibility of the PAA: judgments and assumptions not disclosed

IFRS 17.53(a) – detailed in section 6.1 above

IFRS 17.117(a) – detailed in the "Quantitative information about key assumptions" section (4) above.

7. Level of assessment of grouping of contracts

IFRS 17.17 states that "If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may measure the set of contracts to determine if the contracts are onerous (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts."

IFRS 17.117(a) – detailed in the "Quantitative information about key assumptions" section (4) above.

8. 'Certain' future cash flows and allocation methods not explained

IFRS 17.117(a) – detailed in the "Quantitative information about key assumptions" section (4) above.

9. Insurance contracts with direct participation features

Appendix A of IFRS 17 defines an insurance contract with direct participation features as "An insurance contract for which, at inception:

- a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.”

IFRS 17.B110 states that “For insurance contracts with direct participation features, the contractual service margin is adjusted to reflect the variable nature of the fee. Hence, changes in the amounts set out in paragraph B104 are treated as set out in paragraphs B111–B114.”

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

IFRS 17.B72(b) states that “An entity shall use the following discount rates in applying IFRS 17:...to determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;...”

10. Non-performance risk

IFRS 17.63 states that “In applying the measurement requirements of paragraphs 32–36 to reinsurance contracts held, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.”

10.1 Inconsistencies in credit quality information

IFRS 17.63 – as detailed in the introductory paragraph above.

10.2 Incomplete information to assess credit quality

IFRS 17.131(b) states that “For credit risk that arises from contracts within the scope of IFRS 17, an entity shall disclose: ...

- a) information about the credit quality of reinsurance contracts held that are assets.”

10.3 Maximum exposure to credit risk

IFRS 17.131(a) states that “For credit risk that arises from contracts within the scope of IFRS 17, an entity shall disclose:

- a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period, separately for insurance contracts issued and reinsurance contracts held...”

11. Confidence level disclosures

Appendix A of IFRS 17 defines coverage period as “The period during which the entity provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract.”

11.1 Limited disclosure of inputs used, assumptions made and processes followed

IFRS 17.119 states that “An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.”

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

11.2 No disclosure linking the issuer’s confidence level to regulatory frameworks

IFRS 17.119 – detailed in section 11.1 above.

IFRS 17.126 states that “An entity shall disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest-rate guarantees.”

12. Generic coverage units

IAS 1.117C states that “Accounting policy information that focuses on how an entity has applied the requirements of the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.”

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

IFRS 17.B119(a) states that “An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

- a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.”

13. Inputs into the present value of future cash flows

13.1 No process disclosed for countries where no actuarial guidance tables are available

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

13.2 Mortality and morbidity inputs not reflective of the perspective of the issuer

IFRS 17.33(b) states that “The estimates of future cash flows shall...reflect the perspective of the entity provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53)...”

13.3 Incomplete disclosure of methods and assumptions related to discount rates

IFRS 17.117(a) and (c)(iii) states that “An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

- a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.
- c) to the extent not covered in (a), the approach used:...
- iii) to determine discount rates;”

13.4 Expected coverage period: limited disclosure of assumptions

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

14. Insurance liabilities liquidity risk maturity analysis

IFRS 17.132(b) states that “For liquidity risk arising from contracts within the scope of IFRS 17, an entity shall disclose: ...

- b) separate maturity analyses for portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 and paragraphs 69–70A...”

15. Method of ‘systematic allocation’ not disclosed

IFRS 17.118 states that “If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income, the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.”

IFRS 17.B132 states that “For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

- a) a systematic allocation for the finance income or expenses arising from the estimates of future cash flows can be determined in one of the following ways:
 - i) using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; or
 - ii) for contracts that use a crediting rate to determine amounts due to the policyholders—using an allocation that is based on the amounts credited in the period and expected to be credited in future periods.
- b) a systematic allocation for the finance income or expenses arising from the risk adjustment for non-financial risk, if separately disaggregated from other changes in the risk adjustment for non-financial risk applying paragraph 81, is determined using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.
- c) a systematic allocation for the finance income or expenses arising from the contractual service margin is determined:
 - i) for insurance contracts that do not have direct participation features, using the discount rates specified in paragraph B72(b); and
 - ii) for insurance contracts with direct participation features, using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.”

16. Stochastic projections versus deterministic projections of estimated future cash flows

IFRS 17.33 states that “An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:

- a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (i.e. the probability-weighted mean) of the full range of possible outcomes.”

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

17. Immaterial judgements and assumptions under "critical" judgements and assumptions

17.1 Loss recovery (“LRC”) ratio

IFRS 17.66B states that: “The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer (see paragraph B119F).”

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

17.2 Discretionary participation features with direct participation features

IFRS 17.117(c)(i) states that “An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

- c) An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:...
- i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph B98);”

17.3 “Other disputes” in non-performance risk

IFRS 17.63 states (inter alia) that “In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.”

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

17.4 Liquidity risk

IFRS 17.132(b) – detailed in the “Insurance liabilities liquidity risk maturity analysis ” section (14) above.

17.5 Premium allocation approach

IFRS 17.117(a) – detailed in the “Quantitative information about key assumptions” section (4) above.

18. Scoping concerns

18.1 Instances A and C

IFRS 17.3(a) states that “An entity shall apply IFRS 17 to:

- a) insurance contracts, including reinsurance contracts, it issues;”

Appendix A of IFRS 17 defines an insurance contract as “A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”

18.2 Instance B

IFRS 17.B9 states that “Some contracts expose the issuer to financial risk in addition to significant insurance risk. For example, many life insurance contracts guarantee a minimum rate of return to policyholders, creating financial risk, and at the same time promise death

benefits that may significantly exceed the policyholder's account balance, creating insurance risk in the form of mortality risk. Such contracts are insurance contracts."

18.3 Instance D

IFRS 17.117(c)(v) states that "An entity is required to disclose its approach 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 (see paragraphs B119–B119B)"

IFRS 17.11(b) states that "An entity shall:

- b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component unless it is an investment contract with discretionary participation features within the scope of IFRS 17 (see paragraph 3(c))."