



# FRS 117

Singapore Financial Reporting Standard for Insurance Contracts effective  
Jan 1, 2021.

Key Concepts, Implementation Guide and Transition Rules



# Concepts

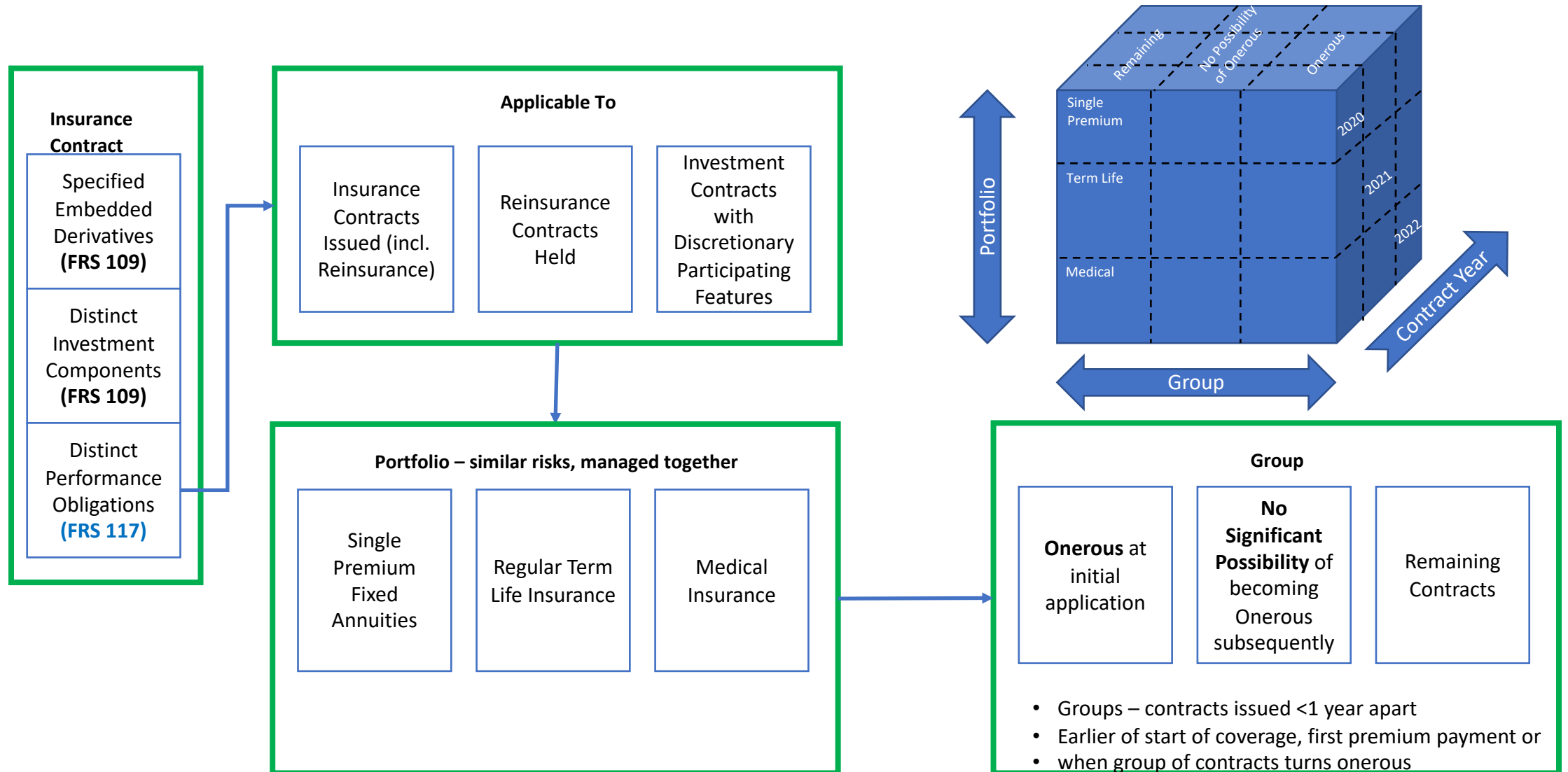
## Insurance Contract - Definition

- Contracts under which an Entity (Insurance Co.) 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.

## Main Features – Insurance Contract

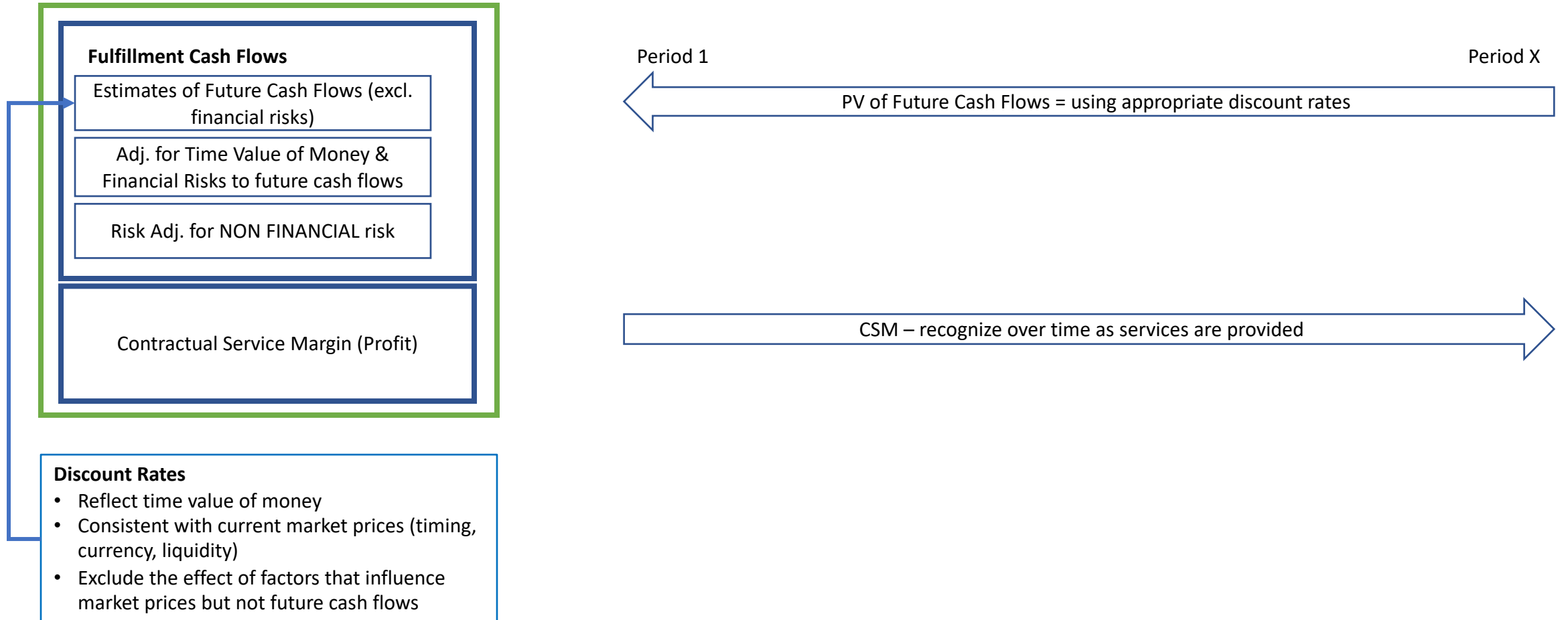
- combines features of financial instruments and a service contract
- Generates cash flows with substantial variability over a long period
- Combines current measurement of future cash flows with the recognition of profit over the service period
- Presents separately Insurance Service Results (incl. revenue) from Insurance Finance Income and Expenses
- Accounting policy choice by portfolio – recognize income/expenses in P&L or some in Other Comprehensive Income (OCI)

# FRS 117



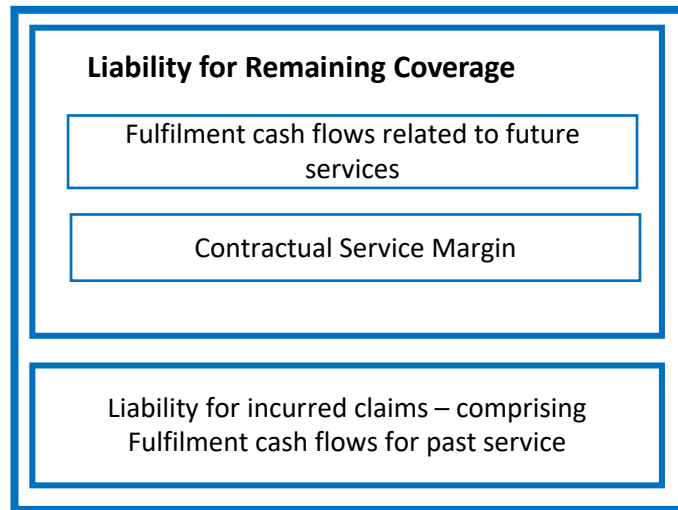
# Measurement - Initial

Initial Recognition

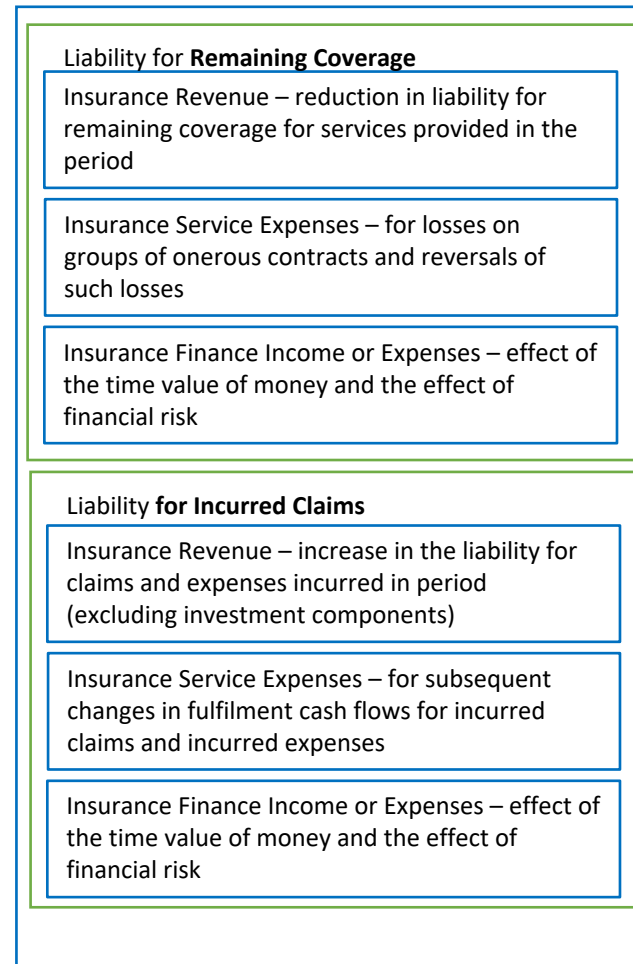


# Measurement - Subsequent

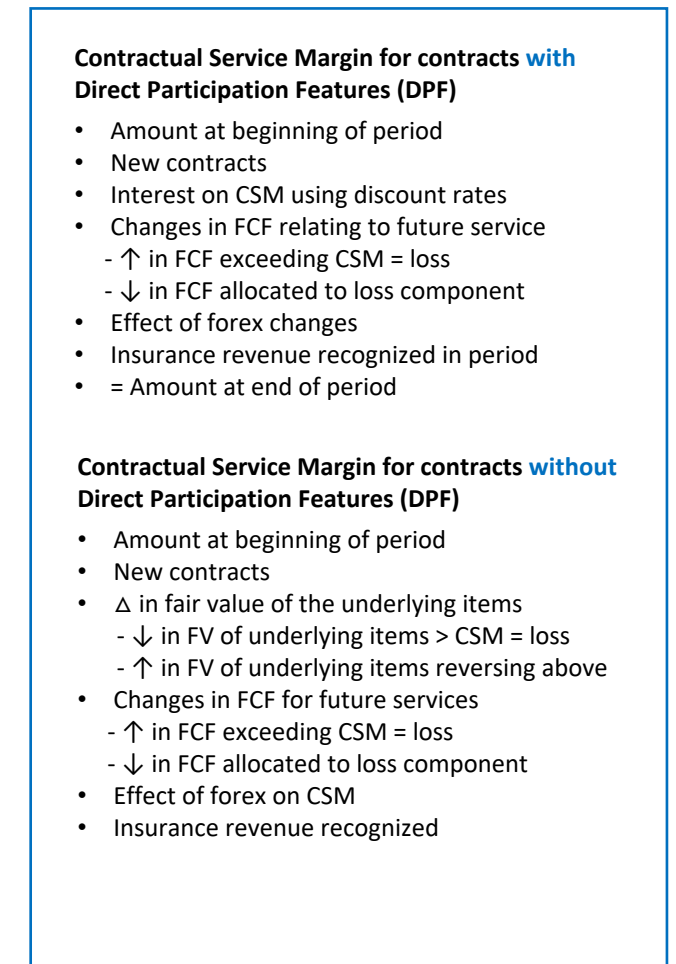
## Subsequent Measurement



## Income Statement



## Balance Sheet



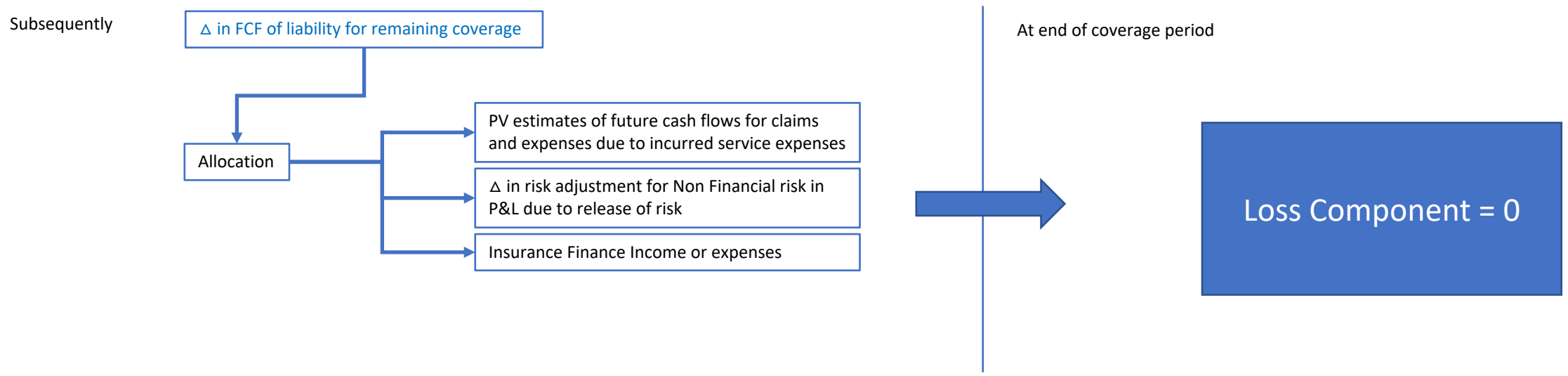
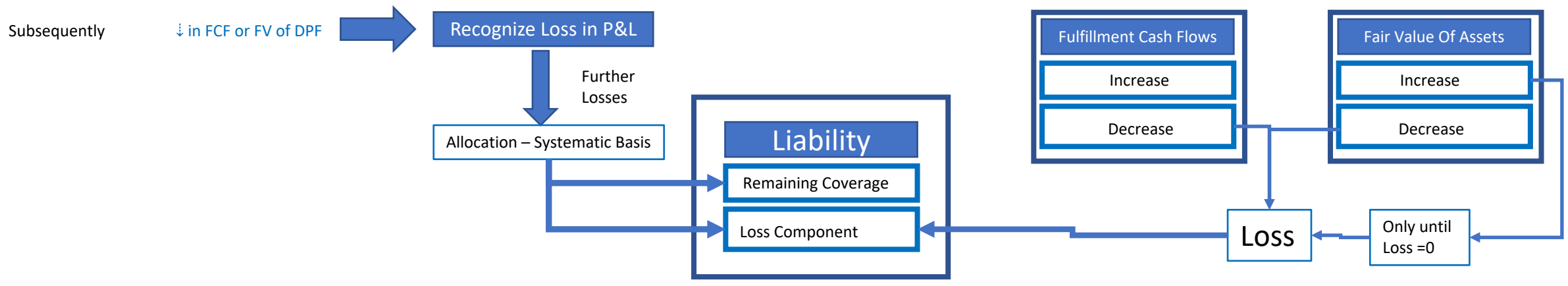
### Direct Participation Feature (DPF) –

- Policyholder participates in share of clearly identified pool of underlying items
- Pay policyholder substantial share of fair value returns on underlying items
- Amounts paid to policyholder varies with change in fair value of underlying items

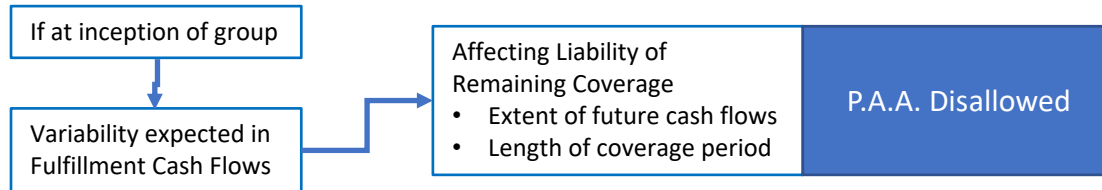
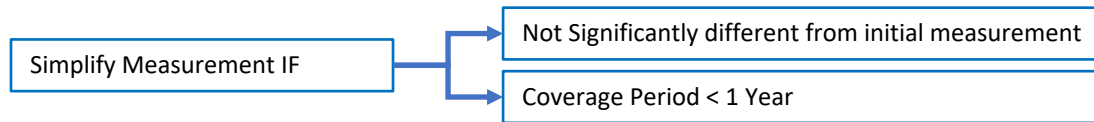
# Onerous Contracts

Date of Initial Recognition    If  $\rightarrow$  Fulfillment Cash Flows (FCF) + Acquisition Cash Flows (ACF) + Cash Flow from Contract = Net Outflow    **Onerous**     $\rightarrow$

- Recognize Loss in P&L
- CSM = 0 (liability offsets FCF)



# Premium Allocation Approach



## On Initial Recognition

Liability =

- Premiums Received
- Less Acquisition Cash Flows (or 0 if expensed)
- +/- De-recognition of Asset or Liability

## At Each Subsequent Reporting Period

Liability =

- Amount at start of period
- + premiums received
- - Acquisition cash flows (unless expensed)
- + amortization of acquisition cash flows
- +financial component adjustment
- - Insurance Revenue recognized
- Investment component paid or transferred to liability for incurred claims
- = Amount At End of Period

# Reinsurance Contracts Held

## No Onerous contracts in Reinsurance.

Instead record a - NET GAIN or NET LOSS (= sum of F.C.F., amount re-recognized as asset/liability & any cash flows arising at that date). UNLESS – events occurred before the purchase of reinsurance contracts, then recognize the COST immediately as an expense in the Profit & Loss account.

Determine the risk adjustment for non financial risk transferred to the issuer

Measure CSM at end of reporting period =

- Carrying amount at start of period
- + effect of new contracts added
- +/- interest accreted on the carrying amount of the CSM (using appropriate discount rates)
- $\Delta$  in F.C.F. to the extent the  $\Delta$  relates to future service unless change due to FCF that does not adjust CSM
- +/- forex impact on CSM
- +/- amount booked in PNL for services received in period computed by allocation of CSM remaining at E.O.P between current and remaining coverage period.

## MODIFICATION AND DERECOGNITION

If an insurance contract is remodified – then derecognize original and recognize new modified contract

Provided that the following conditions are met

- a. if the modified terms had been included at inception
  1. the modified contract would have been excluded from FRS 117
  2. separated diff components from host insurance contract, resulting in different insurance contract to which FRS 117 would apply
  3. modified contract would have substantially diff contract boundary
  4. modified contract would be included in a diff group of contracts
- b. Original definition met DPF but revised does not or vice versa
- c. Original contract PAA conditions met but revised does not

An entity shall derecognize an insurance contract when, and only when:

- it is extinguished, i.e. **obligation expired, discharged or cancelled**
- Modification conditions met

to recognize an insurance contract from a group of contracts (**expired, discharged or cancelled**) -

- FCF for group adjusted to eliminate the PV of Future CFs and Risk Adjustment for Non Financial Risk relating to the rights and obligations derecognized
- The CSM is adjusted For change in FCF
- Number of coverage units for expected remaining coverage is adjusted for derecognized contracts

Derecognition due to **Transfer of contract to 3<sup>rd</sup> party, or replaces with new contract** -

- a. adjust the CSM of the group
  - Change in the carrying amount of the group of the group of insurance contracts
  - Premium charged by the 3<sup>rd</sup> party
  - Premium for all new contract charged based on revised terms, less any additional premium charged due to modification



# Financial Statement Presentation

Present separately in Statement of Financial Position the carrying amount of groups of

- Insurance contracts – assets
- Insurance contracts – liabilities
- Reinsurance contracts – assets
- Reinsurance contracts – liabilities

Insurance **acquisition** cash flows included with assets and liabilities of the related groups in the carrying amounts.

Recognition & Presentation in the FS of Financial Performance

- Disaggregate the amounts recognized in the Statement of Profit & Loss and Other Comprehensive Income (OCI)
- INSURANCE SERVICE RESULT (Insurance revenue and Insurance Service Expenses)
- INSURANCE FINANCE INCOME OR EXPENSES

NOT REQUIRED to disaggregate the change in the risk adj. For non-financial risk between insurance Service result and insurance Finance income and expenses. If not disaggregated then include entire change in the risk adjustment For non financial risk as part of the insurance service result.

Disclose income or expenses from reinsurance contracts separately from insurance contracts.

## INSURANCE SERVICE RESULT

### Revenue

- Depict provision of coverage and other services
- Insurance service expense (incurred claims, incurred insurance service expenses)
- Exclude any investment components
- Reinsurance - option to present net or gross (amts. Recovered from reinsurer and allocation of premiums paid)
- If gross presentation then – reinsurance cash flows on underlying claims as part of reimbursement cash flows under reinsurance
- Reinsurer receivables (e.g. commissions not part of underlying claims) as offset against premiums paid
- Not present allocation of premiums as a reduction in revenue

### Finance Income or Expenses

**Definition** – change in carrying amount of the group insurance contracts from

1. effect of time value of money
2. effect of financial risk and changes in financial risk: but
3. excluding changes DPF contacts that would adjust the CSM but do not do so when applying

FV of underlying items	Fulfillment cash flows for future services
Decrease in FV exceeds carrying value of CSM (loss)	Increase in FCF exceed carrying amount of CSM (loss)
Increases in FY reverses item above (reinstatement of loss)	Decrease in FCF are allocated to the <b>loss component</b> of the liability (reducing the loss)

### Accounting Policy Choice -

- Include ins. Finance income or expense for the period in PNL or
- ∞Disaggregate insurance Finance income or expense for period and include in PNL amountt determined by systemic allocation of expected total ins. Finance income or expense over duration of group of contracts.

### For DPF when underlying items are held – make policy choice

- Include insurance Finance income or expenses for the period in PNL or
- ∞Disaggregate ins. Finance income or expense for period and include in PNL amountt that eliminates accounting mismatches with income or expenses included in PNL on the underlying items held

*If ∞ is elected then include in OCI difference elected method and the total insurance inc./exp. For the period*

If entity Transfers a group of contracts OR Derecognizes a contract

- Reclassify to PNL and remaining amounts previously recognized in OCI for systematic allocation option used but NOT for DPF accounting mismatches.

# Disclosure

**Objective** – disclose info in the NOTES when read together with Financial Statements gives basis for users to assess effect of FRS 117 contracts on Financial position, financial performance and cash flows. Disclose qualitative and quantitative info on

1. amounts recognized in FS
2. significant judgements
3. nature and extent of risks

Balance level of detail, emphasis, level of aggregation or disaggregation of info.

## Aggregation bases

- Type of contract (major product lines)
- Geographical area (country or region)
- Reportable Segment

If **PAA** used, whether it makes an adjustment for time value of money and effect of financial risk

## Reconciliations –

how net carrying amounts changed during the period because of

- Cash flows
- Income and expenses recognized

Insurance and reinsurance reconciliations should be showed **separately**.

Present Net Carrying Amounts at beginning and end of period, **disaggregated** for groups of contracts that are

- Assets
- Liabilities

Reconciliations required for

- Net Liabilities or Assets for remaining coverage component
- Any **LOSS COMPONENT**
- Liabilities for incurred claims
- Estimates of the present value of the future cash flows
- The risk adjustment for NON FINANCIAL RISK
- The CONTRACTUAL SERVICE MARGIN
- Insurance Revenue
- Insurance Service Expenses
  - Incurred claims (excluding investment components) and other incurred insurance service expenses
  - Amortization of insurance acquisition cash flows
  - Changes that relate to past service i.e. changes in fulfilment cash flows relating to the liability for incurred claims
  - Changes that relate to future service i.e. losses on onerous groups of contracts and reversals of such losses
- Investment components excluded from insurance revenue and insurance service expenses
- Insurance services related information
  - Changes in estimates that adjust the CSM
  - Changes in estimates that do not adjust the CSM i.e. losses on groups of onerous contracts and reversals of such losses
  - Effects of contracts initially recognized in period
- Changes that relate to current service
  - Amount of CSM recognized in P&L to reflect the transfer of services
  - Change in risk adjustment for non financial risk that does not relate to future or past service
  - Experience adjustments
- Cash Flows in the period
  - Premiums received for insurance contracts issued (or paid for reinsurance contracts held)
  - Insurance acquisition cash flows
  - Incurred claims paid & other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contract held), excluding insurance acquisition cash flows
- Effect of changes in the risk for non performance by the issuer of reinsurance contracts held
- Insurance finance income or expenses
- Any additional information that may be necessary to understand change in net carrying amount of contracts

Non PAA Insurance Contracts

## - Revenue

- Change in liability for remaining coverage
- Insurance service expenses
- Change in risk adjustment for non financial risk
- CSM recognized in P&L due to transfer of services

## - Statement of Financial Position

(separately for contract issued and reinsurance contracts held)

- Estimated PV of Future Cash Flows
- Amount of insurance acquisition cash flows
- Risk adjustment for non financial risk
- Contractual Service margin

## - Acquired in Transfers or Business Combinations

### - Onerous Contracts

- Expected CSM recognition in time bands
- Relationship between ins. Inc./exp. And investment return on assets
- DPF contracts – Composition and FV of underlying items

Additional Disclosures for Premium Allocation Approach (PAA)

- Estimated PV of the future cash flows
- risk adjustment for non-financial risk

# Transition

- FRS 117 Applicable Date – 1 January 2021
- Transition date – beginning of reporting period immediately preceding date of initial application
- Shally apply FRS 117 retrospectively ***unless impracticable***
- not required to present quantitative information per FRS 8
- At transition date
  - Identify, recognize and measure each group of insurance contracts as if FRS 117 had always applied
  - Derecognize any existing balances that would not exist has FRS 117 always applied
  - Recognize and resulting net difference in equity
- If impracticable to apply FRS 117 then use
  - Modified Retrospective Approach
    - Achieve closest result to retrospective using reasonable and supportable information without undue effort or cost
  - Fair Value Approach

References - Summarized from the website of the Accounting Standards Council Singapore (ASC) that holds the copyright, trademark and other proprietary rights issued Singapore Financial Reporting Standards SFRS 117.