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Impairment of asset for insurance acquisition cash flows

Francesco Nagari, Deloitte Global IFRS Insurance Leader | August 2021

Agenda covered in this webcast

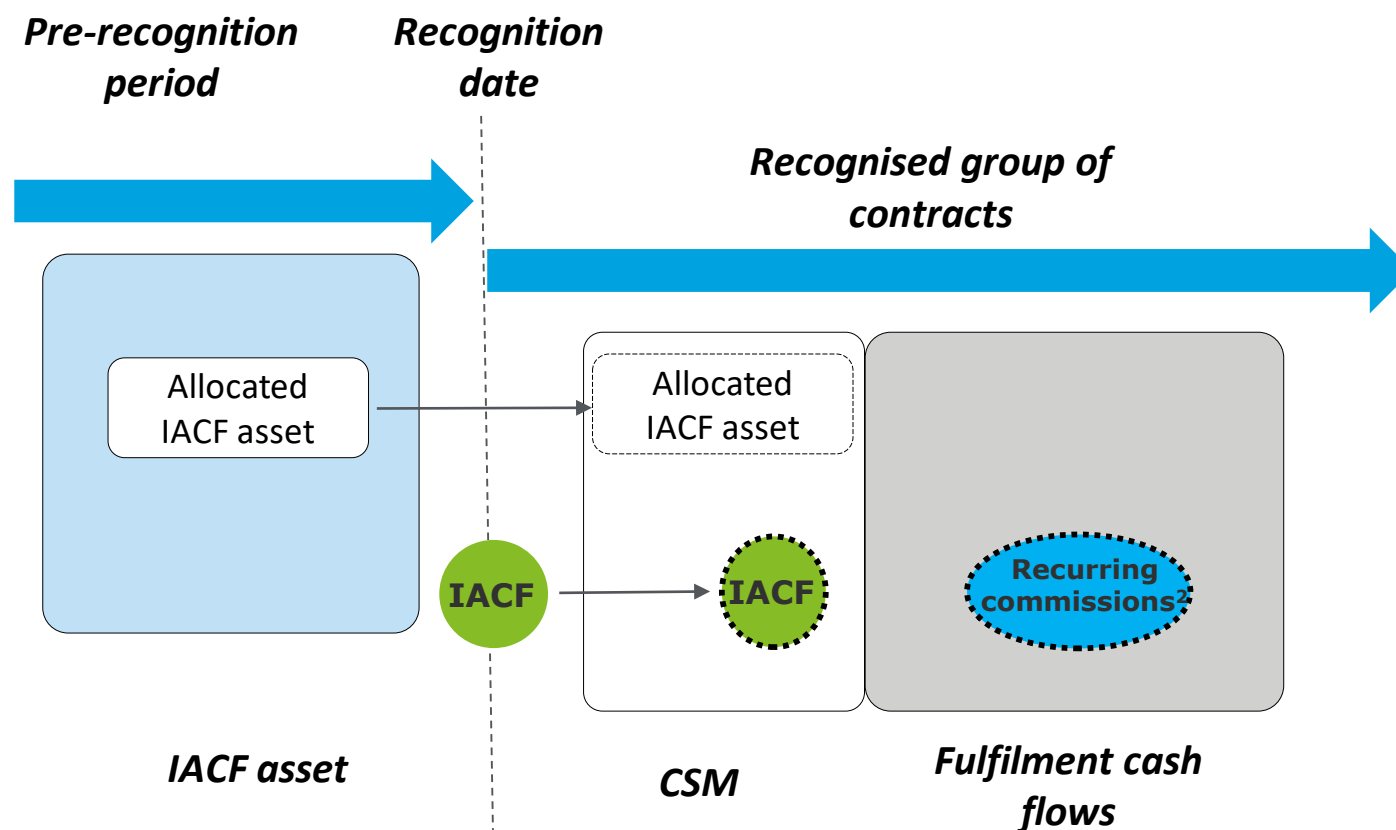
- Asset for insurance acquisition cash flows (IACF asset)
 - Definition
 - Allocation to related groups of insurance contracts
- Impairment of IACF asset
 - IFRS 17 requirements
 - Two-level impairment test
- Illustrative example
- Practical considerations

Asset for insurance acquisition cash flows (IACF asset)

Definition

IACF are cash flows arising from the **costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs**. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio but are directly attributable to the efforts to assemble a portfolio of contracts.

An IACF asset is recognised for (a) an IACF **already paid** or (b) an IACF in which **a liability¹ is recognised** before the related group of insurance contracts is recognised.

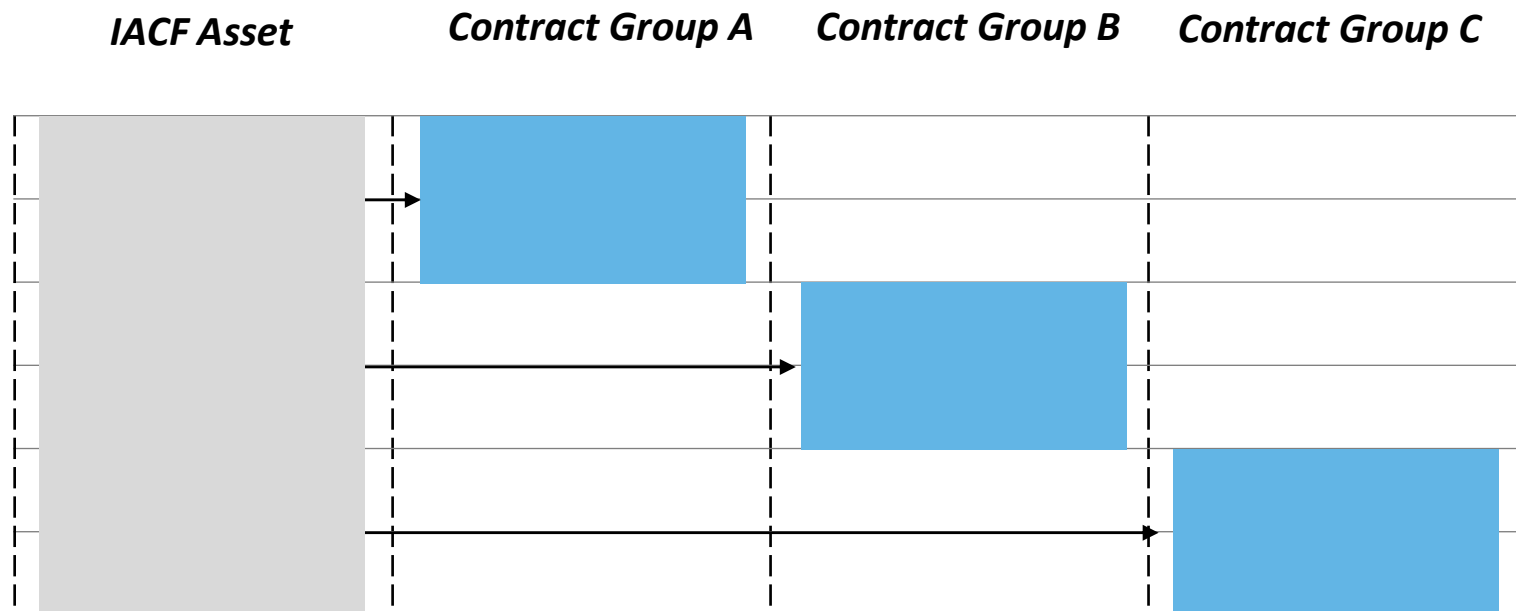


1 Liability recognised applying another IFRS pronouncement.

2 Commissions expected to be paid after initial recognition date and within the boundary of an insurance contract

Asset for insurance acquisition cash flows (IACF asset)

Allocation to related groups of insurance contracts



At *each reporting period end*, the amounts of IACF asset to be allocated to the related groups are *revised for any changes in assumptions* used in the allocation method.



Once all contracts have been *added to the group*, the IACF asset allocated to that group *cannot be changed subsequently*.

An entity shall use a **systematic and rational method** to allocate the IACF assets to related groups of contracts.

Impairment of IACF asset

IFRS 17 requirements



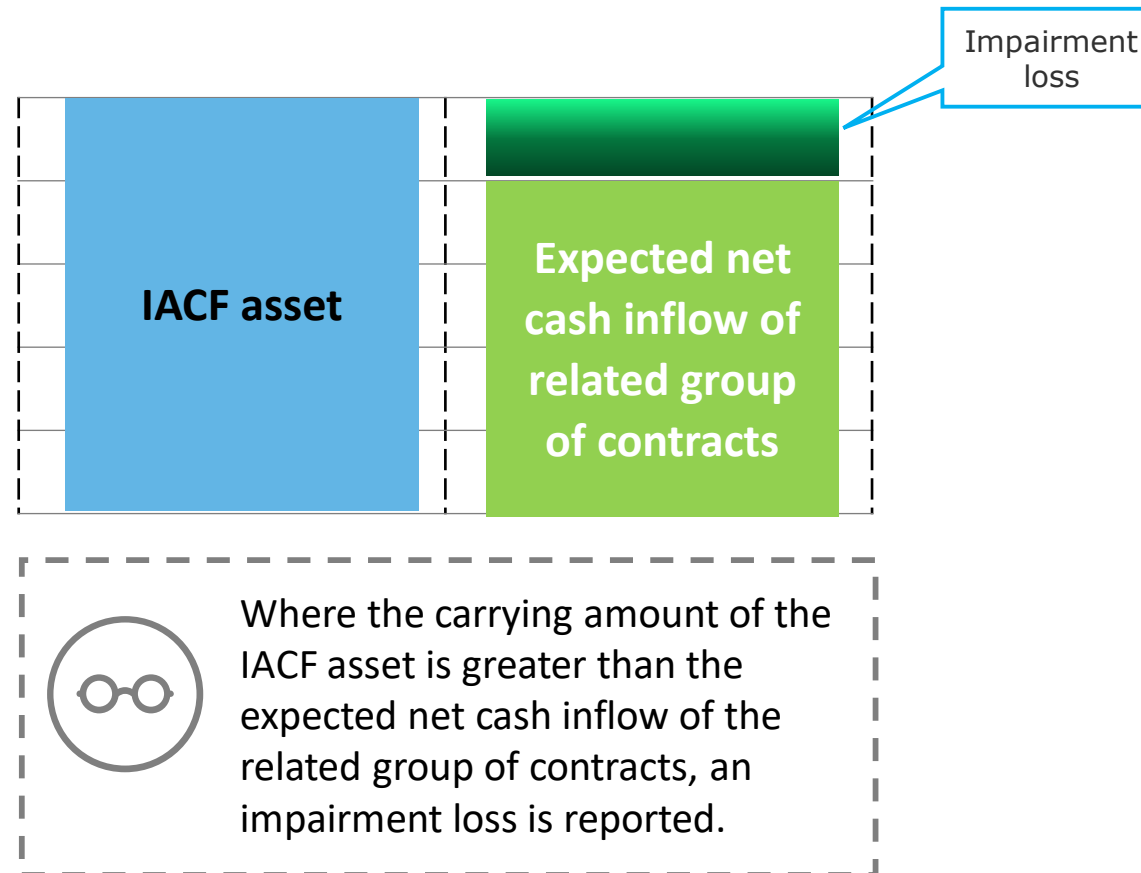
At the end of each reporting period, an entity shall assess the recoverability of an IACF asset **if facts and circumstances indicate** that the asset may be impaired.



Any impairment loss is recognised in **profit or loss**.



Impairment loss reversal is recognised in profit or loss when the impairment conditions **no longer exist** or **have improved**.



Impairment of IACF asset

Two-level impairment test

The **first level impairment test** deals with assessing impairment on IACF assets as a whole, inclusive of IACF that are not necessarily directly attributable to an individual contract, such as marketing costs.

The **second level impairment test** is an additional impairment test specific to the portion of the IACF asset that will be allocated to expected contract renewals. An example of these IACF is the cost of commissions paid to insurance intermediaries.

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Accounting issue:

How would an insurer interpret and apply the requirements of IFRS 17, para. B35D(a) ["first level impairment test"] and IFRS 17, para. B35D(b) ["second level impairment test"] when performing the impairment test?

Illustrative example

Fact pattern

The table below shows the IACF asset balance as at 31 December 2024 and its expected allocation to related future groups of contracts.

IACF asset B35A(a)	Balance at 31 Dec 2024	<i>Expected allocation in 2025</i>	<i>Expected allocation in 2026</i>	<i>Expected allocation in 2027</i>
Generated in 2024	100	40	30	30
Generated in 2023	50	30	20	-
Generated in 2022	30	20	10	-
Sub-total (a)	180	90	60	30
IACF asset B35A(b)				
Generated in 2024	200	50	60	90
Generated in 2023	150	50	60	40
Generated in 2022	130	20	40	70
Generated in 2021	60	20	30	10
Sub-total (b)	540	140	190	210
Total (a) + (b)	720	230	250	240

IACF directly attributable to the groups

IACF directly attributable to the portfolio other than those included above

Illustrative example

Fact pattern (cont'd)

The table below shows the expected net cash inflows from related groups of contracts within Portfolio Y.

From renewals of contracts initially issued in the year	Total	Expected net cash inflows in 2025	Expected net cash inflows in 2026	Expected net cash inflows in 2027
2024	240	100	70	70
2023	40	20	20	-
2022	30	10	20	-
Sub-total of net inflows from renewals by future year	310	130	110	70
From new contracts				
Expected in 2025	90	90		
Expected in 2026	300		300	
Expected in 2027	300			300
Expected later				
Total net cash inflows by future year	1000	220	410	370

Portfolio Y
Group 2025

Portfolio Y
Group 2026

Portfolio Y
Group 2027

Illustrative example

First level impairment test

Impairment test at the level of a future group of insurance contracts:

Year	Expected allocation of IACF asset
2025	230
2026	250
2027	240

IACF asset B35A(a)	Balance at 31/12/24	Expected allocation in 2025	Expected allocation in 2026	Expected allocation in 2027
Generated in 2024	100	40	30	30
Generated in 2023	50	30	20	-
Generated in 2022	30	20	10	-
Sub-total (a)	180	90	60	30
IACF asset B35A(b)				
Generated in 2024	200	50	60	90
Generated in 2023	150	50	60	40
Generated in 2022	130	20	40	70
Generated in 2021	60	20	30	10
Sub-total (b)	540	140	190	210
Total (a) + (b)	720	230	250	240

Illustrative example

First level impairment test (cont'd)

Impairment test at the level of a future group of insurance contracts:

Year	Expected allocation of IACF asset		Expected net inflows from related group of contracts	(Impairment) / Headroom
2025	230	>	220	(10)
2026	250	<	410	160
2027	240	<	370	130

From renewals of contracts initially issued in the year	Expected net cash inflows in 2025	Expected net cash inflows in 2026	Expected net cash inflows in 2027
2024	100	70	70
2023	20	20	-
2022	10	20	-
Sub-total of net inflows from renewals by future year	130	110	70
From new contracts			
Expected in 2025	90		
Expected in 2026		300	
Expected in 2027			300
Expected later			
Total net cash inflows by future year	220	410	370



This would result in the recognition of an impairment loss of 10 currency units from Portfolio Y Group 2025

Illustrative example

Second level impairment test

Impairment test for IACF asset related to a particular renewal group:

	IACF asset at 31/12/2024
Generated in 2024	100
Generated in 2023	50
Generated in 2022	30

IACF asset B35A(a)	Balance at 31 Dec 2024	Expected allocation in 2025	Expected allocation in 2026	Expected allocation in 2027
Generated in 2024	100	40	30	30
Generated in 2023	50	30	20	-
Generated in 2022	30	20	10	-
Sub-total (a)	180	90	60	30
IACF asset B35A(b)				
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Generated in 2021	60	20	30	10
Sub-total (b)	540	140	190	210
Total (a) + (b)	720	230	250	240

Illustrative example

Second level impairment test (cont'd)

Impairment test for IACF asset related to a particular renewal group:

	IACF asset at 31/12/2024		Net cash inflows from related renewal group	(Impairment) / Headroom
Generated in 2024	100	<	240	140
Generated in 2023	50	>	40	(10)
Generated in 2022	30	<	30	—

From renewals of contracts initially issued in the year	Total	Expected net cash inflows in 2025	Expected net cash inflows in 2026	Expected net cash inflows in 2027
2024	240	100	70	70
2023	40	20	20	-
2022	30	10	20	-
Sub-total of net inflows from renewals by future year	310	130	110	70
From new contracts				
Expected in 2025	90	90		
Expected in 2026	300		300	
Expected in 2027	300			300
Expected later				
Total net cash inflows by future year	1000	220	410	370



This would result in the recognition of an impairment loss of 10 currency units for the IACF asset generated in 2023.

Illustrative example

Total impairment loss to be recognised

It is important to remember that IFRS 17 requires that an impairment loss resulting from the "second level impairment test" **would only be recognised** provided that it has **not already been recognised as an impairment loss** resulting from the "first level impairment test".

To calculate the total impairment loss to be recognised for the IACF asset as of 31 December 2024:

Amounts in currency units:

First level impairment test loss		10
Second level impairment test loss	10	
Less portion already included in the first level impairment test ¹	(3.9)	6.1
Total impairment loss for 2024		16.1

1 The allocation method used in this analysis is the relative carrying amounts of the two types of IACF asset making up the total IACF asset balance expected to be allocated in 2025, the future year when the impairment is detected. This allocation approach is for illustration purposes only.

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230

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IACF asset B35A(a)	Balance at 31 Dec 2024	Expected allocation in 2025	Expected allocation in 2026	Expected allocation in 2027
Generated in 2024	100	40	30	30
Generated in 2023	50	30	20	-
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Sub-total (b)	540	140	190	210
Total (a) + (b)	720	230	250	240

Practical considerations

Some practical considerations when implementing the requirements of IFRS 17 on recognition and measurement (including impairment) of IACF asset:

- Need a clear **cost classification basis** that complies with the IACF definition in IFRS 17 and separate IFRS 17 attributable costs between IACF and other IFRS 17 costs
- Need to identify **indicators** for impairment
- Need to design a systematic and rational **IACF allocation basis** that takes into account the economics of insurance distribution costs e.g. an allocation basis that uses the same process to calculate the future net inflows that would achieve a high level of correlation between the allocation process and the impairment tests capturing impairment losses that reflect the relative success (or not) of an insurer's distribution strategy and costs incurred for it
- **Granularity** of data, i.e. test performed at the future groups of contracts level
- **Availability** of information on expected future cash flows of future groups of contracts
- Ensure **no double-counting** of impairment loss to be recognised by removing the portion of the impairment loss determined from the second level impairment test that is already recognised from the first level impairment test

Contact details

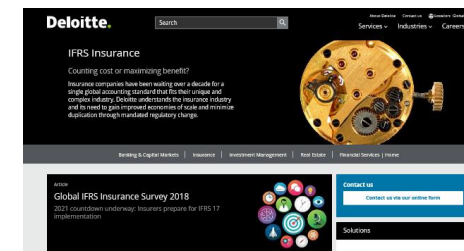
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