



Quantifying Risk, Enabling Opportunity.

Medical Scheme IFRS 17: Insurance contracts

Presented by: Shaun Osner, Carolyn Clark

Date: 01/12/2021

IFRS 17 establishes principles for the



of insurance contracts within the scope of IFRS 17

OBJECTIVE



To provide relevant information



That faithfully represents a medical scheme's insurance contracts



And the information that gives a basis for user to assess the effect that insurance contracts have on the financial position, performance, and cash flows

IFRS 17 – INSURANCE CONTRACTS

EFFECTIVE DATE AND TRANSITION

Applicable for annual reporting periods beginning on or after:

1 January 2023

For medical schemes this would apply in preparing financial statements for the December 2023 year end

Applied retrospectively and at transition date:

- Identify, recognise and measure each group of insurance contracts as if IFRS 17 has always applied
- Derecognise any existing balances that would not exist under IFRS 17
- Recognise any resulting net difference in Members funds and reserves

KEY PRINCIPLES FOR ENTITY

1

Identify insurance contracts

2

Separate specified embedded derivatives, distinct investment components and performance obligations

3

Divides contracts into groups

4

Recognise profit from groups over coverage period

5

If group loss making – recognise loss immediately

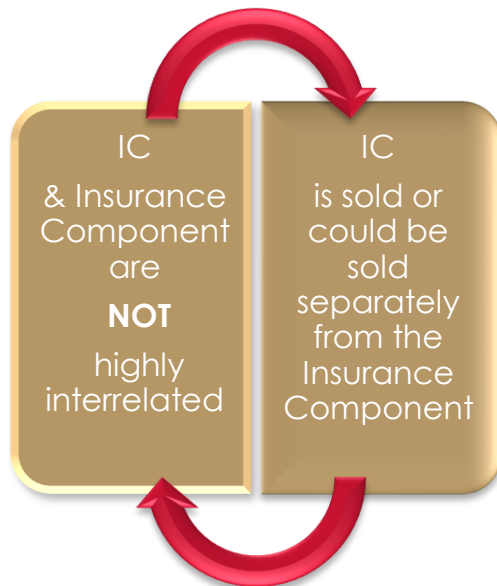
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Presents separately

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses

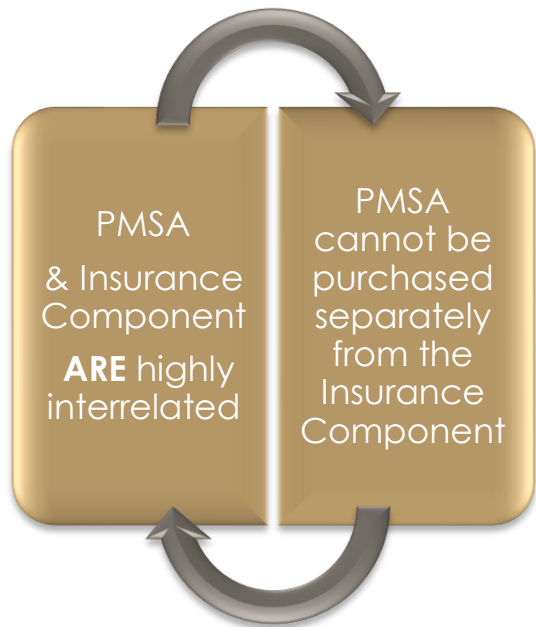
SEPARATING INVESTMENT COMPONENTS FROM INSURANCE CONTRACTS

For investment component ("IC") to be distinct and separated BOTH the following conditions need to be met



SEPARATING INVESTMENT COMPONENTS FROM INSURANCE CONTRACTS

Personal Medical Savings Accounts



- No longer separated from the insurance component
- IFRS 17 applied to account for the combined investment and insurance component

LEVEL OF AGGREGATION

Portfolio of insurance contracts shall be identified

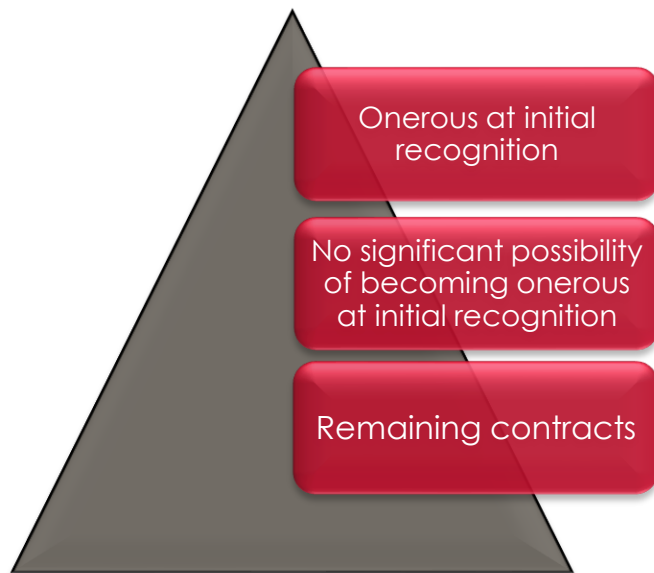
Portfolio of insurance contracts shall be divided into a minimum of the following groups

Portfolio comprises:

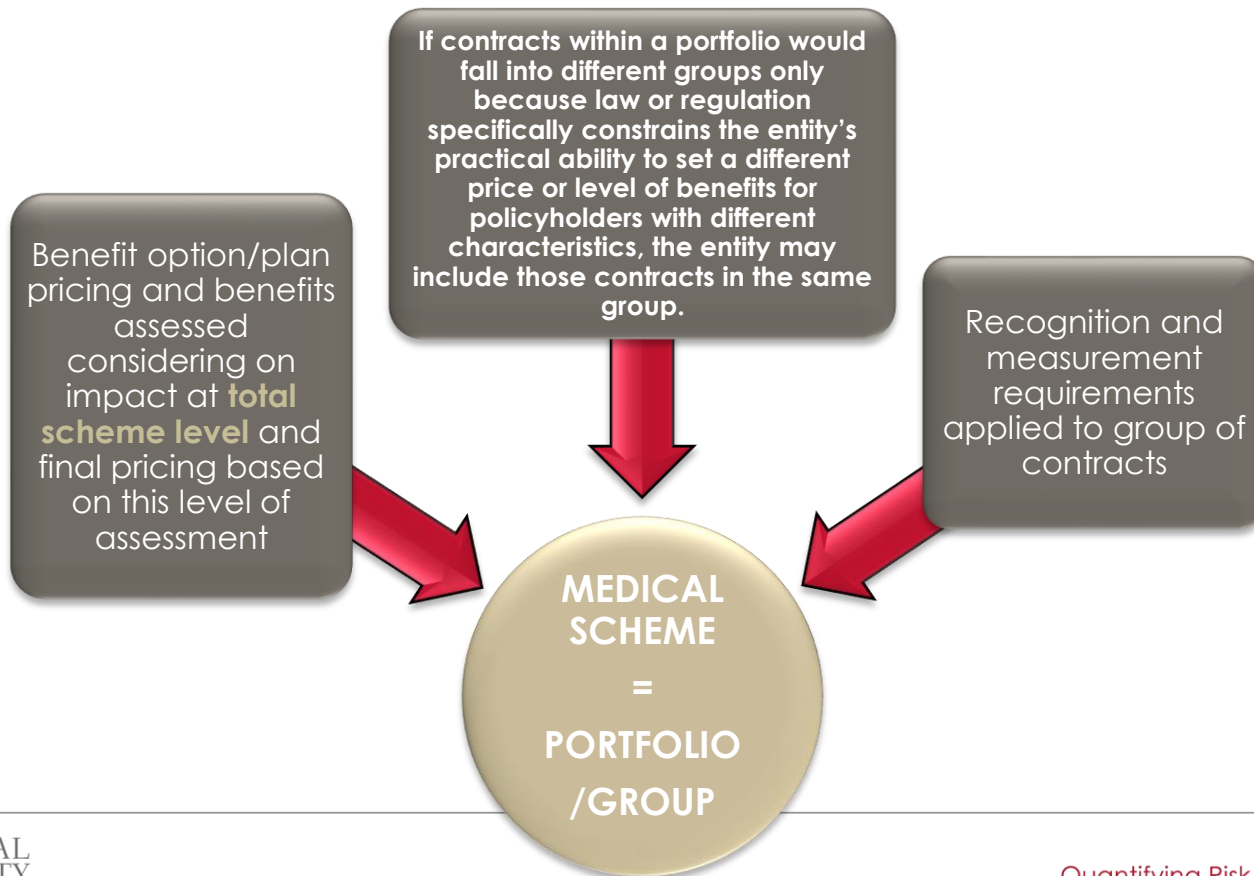
➤ Contracts subject to similar risks;

and

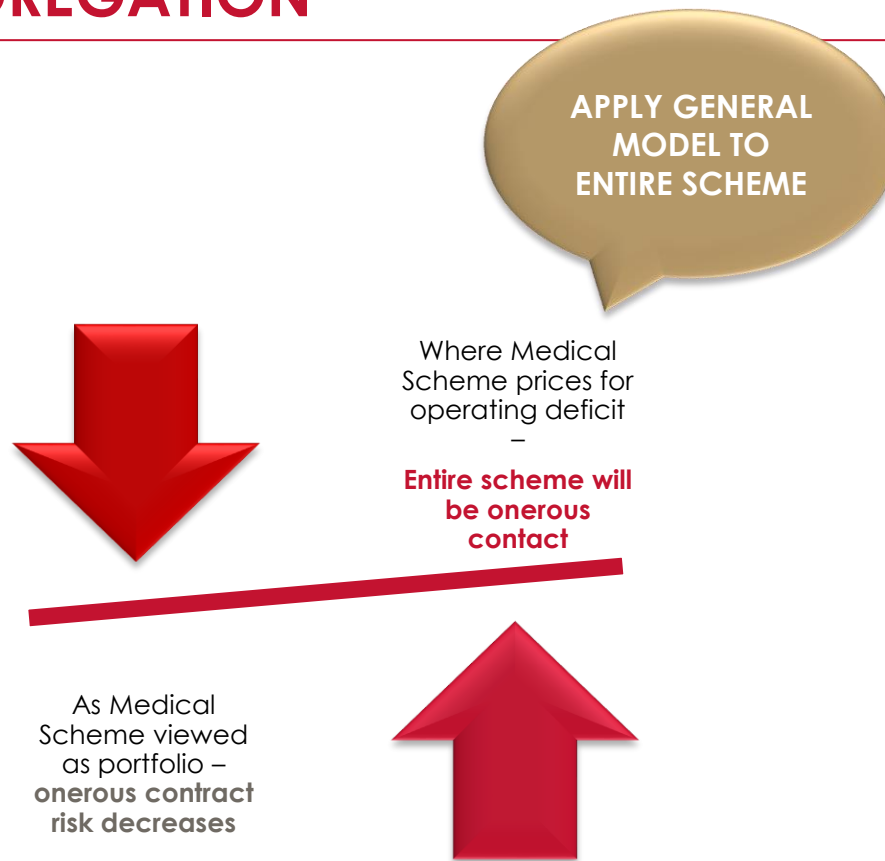
➤ Managed together



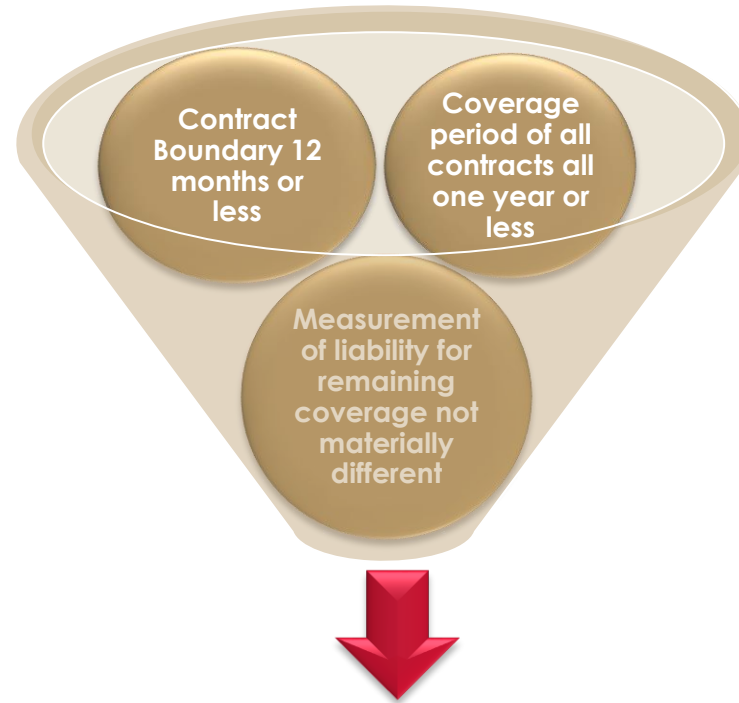
LEVEL OF AGGREGATION



LEVEL OF AGGREGATION



MEASUREMENT



PREMIUM ALLOCATION APPROACH “PAA”

WHICH CASH FLOWS ARE WITHIN INSURANCE CONTRACT?

Those that relate directly to the fulfillment of the contract



Contributions received



Claims incurred



Risk Transfer Arrangement fees & recoveries



Recoveries from third parties



Managed care fees



Administration fees



Acquisition Costs (Broker fees)

WHICH CASH FLOWS ARE EXCLUDED?

Examples of cash flows excluded when estimating cash flows to fulfill existing insurance contracts

Investment
returns

Cash flows from
future insurance
contracts

Asset
Manager
Fees

Other
Operating
Expenses

Cash flows
not directly
attributed to
insurance
contracts

Interest paid

KEY CONSIDERATIONS

Key Considerations	Assessment
Identification of insurance contracts	The contracts issued by the Scheme to members are included in the scope of IFRS 17 as they insure against the cost of a health event, arising from either, out of hospital (day to day events), in hospital events or chronic illnesses, or any combination of these events.
Portfolio assessment	Contracts issued by the Scheme are subject to similar risks and managed together and fall into the same portfolio with no further disaggregation into groups. The level of aggregation will be set at the overall Scheme level.
Personal Medical Savings Accounts	PMSAs are not distinct, are highly interrelated and cannot be purchased separately from the risk component. Under IFRS 17 PMSA do not meet the criteria to separate these from the insurance component, they are non-distinct investment components with the balances included in either Insurance Contract Assets or Liabilities in the Statement of Financial Position. While the cash flows are not recorded in the Statement of Comprehensive Income, they are considered in assessing onerous contracts.

KEY CONSIDERATIONS

Key Considerations	Assessment
Recognition	The Scheme's insurance contracts are included in a single portfolio and the coverage period is aligned with the reporting period (financial year). The insurance contracts will be recognised from 1 January or from inception of cover should a member join the Scheme after 1 January. Where the Scheme, as a whole is priced for a deficit position at the Net Healthcare Result level, all contracts would be onerous, and the loss would need to be recognised when the contracts become onerous. As pricing for the Scheme is done in September for the following year, the onerous contract test would be assessed at this time, with the following year's loss being recognised in the current financial year. No discounting will be applied as no contract exceeds 12 months.

KEY CONSIDERATIONS

Key Considerations	Assessment
Measurement	The contract boundary for the Scheme's insurance contracts do not exceed 12 months and is generally aligned with the Scheme's financial year. With the coverage period and the Scheme's financial year being the same, there would be no liability for remaining coverage at the year-end reporting date. The Premium Allocation Approach (PAA) can be used to measure the Scheme's insurance contracts. The only liability remaining at year end would be the liability for incurred claims, which comprises the fulfilment cash flows related to past service allocated to the group at that date.

KEY CONSIDERATIONS

Key Considerations	Assessment
Contractual cash flows	Cash flows to fulfill the Scheme's insurance contracts: • Member Contributions (including contribution adjustments); • Claims payments to (or on behalf of) members, including claims that have already been reported but not been paid, claims that have been incurred but not yet reported, net of third-party claim recoveries; • Insurance acquisition cash flows; • Accredited managed healthcare services (No risk transfer); • Risk transfer arrangement fees paid and recoveries; • Administration fees paid to the Administrator;
Impairment losses	Impairment losses related to the following receivables would be included in the related contractual cash flow: • Contribution receivables; • Member and provider claim receivables; • Forensic receivables.

KEY CONSIDERATIONS

Key Considerations	Assessment
System impact	The current system and reporting has been assessed as meeting the requirements of PAA and no changes to the system and reporting has been identified.
Accounting policies	Changes to the accounting policies are still being assessed and any required changes will be presented to the Audit Committee.
Risk Transfer Arrangements	Detailed impact on Risk Transfer Arrangements is still being assessed.
Impact on management reporting	The Scheme does not prepare interim financial statements and IFRS 17 will only be applied to the annual financial statements and not applied in preparing the monthly management accounts. No significant changes are expected to the current reporting.
Impact on regulatory reporting	Engagement with CMS has commenced through the SAICA Medical Schemes Project Group however direct engage from the Scheme has not commenced.

OTHER CONSIDERATIONS

Monthly Management Accounts

- IFRS 17 will not be applied
- Reconciliations to AFS

Reporting to Board and Committees

- Monthly and Quarterly reporting not expected to align to IFRS
- Resulting in additional reconciliations to AFS
- Consideration needs to be given to impact on budgeting and pricing decisions as well as impact on contracting decisions

Regulatory

- Quarterly Returns based on management accounts and would not comply with IFRS
- Annual Returns, if prepared to IFRS would not align to Qtr Returns
- If prepared based on Qtr Returns would no longer comply with IFRS
- Consideration needs to be given to impact on Statutory Solvency

DISCLOSURE

Statement of Financial Position

Presentation based on Current and non-current (IFRS 4)

ASSETS

Current assets

Financial assets at fair value through profit or loss

Trade and other receivables

Cash and cash equivalents

TOTAL ASSETS

FUNDS AND LIABILITIES

Members' funds

Accumulated funds

LIABILITIES

Current liabilities

Outstanding claims provision

Personal Medical Savings Account liabilities

Trade and other payables

TOTALS FUNDS AND LIABILITIES

Presentation based on order of liquidity (IFRS 17)

ASSETS

Insurance contract assets

Reinsurance contract assets

Financial assets at fair value through profit or loss

Trade and other receivables – Loans and receivables

Cash and cash equivalents

LIABILITIES

Insurance contract liabilities

Reinsurance contract liabilities

Trade and other payables

TOTAL LIABILITIES

MEMBERS' FUNDS

Accumulated funds

TOTALS FUNDS AND LIABILITIES

DISCLOSURE

Statement of Comprehensive Income

Presentation based on IFRS 4

Risk contribution income

Relevant healthcare expenditure

Net claims incurred

Risk claims incurred

Third-party claim recoveries

Accredited managed healthcare services (no risk transfer)

Net income on risk transfer arrangements

Risk transfer arrangement fees paid

Recoveries from risk transfer arrangements

Gross healthcare result

Administration fees and other operating expenses

Net impairment losses on healthcare receivables

Net healthcare result

Other income

Investment income

Other expenditure

Interest paid on savings accounts

Total comprehensive income for the year

Presentation based on IFRS 17

Insurance revenue

Insurance service expense

Incurred claims

Other incurred insurance service expenses

Expenses from reinsurance

Insurance service result

Other operating expenses

Other income

Investment income

Other expenditure

Finance costs

Total comprehensive income for the year

SO WHAT ARE THE “REAL” IMPACTS LIKELY TO BE?

STATEMENT OF FINANCIAL POSITION (balance sheet)

- Most likely financial impact to come from the risk adjustment on the liability for incurred claims

Paragraph 37: *An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.*

Paragraphs B86–B92 *provide further principles, but are not prescriptive on its calculation*

- Medical schemes will not need to discount
- Unlikely to be LFRC at year-end, unless benefit year and financial year end are not aligned. If so, seasonality may need to be allowed for in amortizing the UPR and/or it could be calculated net of any DAC (unamortised acquisition expenses, if any) (latter is optional)
- All other impacts are presentational, for example, premium debtors and PMSA liabilities being shifted to the insurance contract liabilities line

SO WHAT ARE THE “REAL” IMPACTS LIKELY TO BE?

STATEMENT OF COMPREHENSIVE INCOME (income statement)

Similar to the commentary on the balance sheet:

- Financial impacts *may* arise from the risk adjustment
- Impacts from amortisation of the UPR and/or netting of DAC, dependent on having contracts not run off at the reporting date
- Significant presentational changes, for example in respect of:
 - PMSAs (investment returns shown in finance income or expenses)
 - Risk transfer arrangements (*may* reduce effort – analysis still needed)
 - “Non-attributable” expenses

SO WHAT ARE THE “REAL” IMPACTS LIKELY TO BE?

SUPPORTING DISCLOSURES

- Separate disclosures of LFRC and LIC, BEL and RA (LIC to contain PMSA), although at year-end the LFRC should be zero unless there are prepayments for the next year (and/or contracts incepted during the period)
- Separate disclosures of impact of past and current service claims (reconciliation in LIC)
- Separate disclosures of acquisition and maintenance expenses
- Disclosure of accounting judgements
- Risk disclosures similar to IFRS 4



QUESTIONS?