



IFRS 17 Implementation for MEDICAL SCHEMES 22 May 2024



An overview of IFRS 17 for medical schemes



Why the change?

	IFRS 4	IFRS 17
IFRS for Insurance Contracts	✓	✓
Permanence	Temporary	“Final”
Classification (scope)	✓	✓ (some changes/additions)
Measurement	✗	✓
Presentation	✗	✓
Disclosure	✓	✓ (some additions)

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Timing for medical schemes

Effective date of IFRS 17

1 January 2023

First year-end date

31 December 2023

Comparative year year-end date

31 December 2022

Opening balance sheet ('transition') date

1 January 2022

- Recognition and measurement as if IFRS 17 was always in force
 - Add IFRS 17 accounts and reverse balances that no longer exist under IFRS 17, recognising the net difference in Members funds and reserves
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Mutualisation (B67 – B71) for Mutuals

Paragraph B68 describes contracts that affect the cash flows to policyholders of contracts in other groups and specifies that the fulfilment cash flows for a group include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders.

Paragraph B71 states that after all insurance contract services have been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.



Mutualisation (B67 – B71) for Mutuals

In the Basis for Conclusions (BC264 to BC269) the implications are discussed for mutual insurers:

- The most residual interest is due to policyholders rather than shareholders
- Payments to policyholders are included in the fulfilment cash flows regardless of whether they are paid to current or future policyholders
- Thus, the fulfilment cash flows of a mutual generally include the whole of any surplus assets over liabilities and there would normally be no equity remaining, nor net comprehensive income reported in any period
- The liabilities attributable to policyholders with the most residual interest, as well as the related income or expenses, can be presented separately in the statements of financial position and performance, respectively

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Changes to the income statement

IFRS 4 Statement of Comprehensive Income

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

IFRS 17 IFRS 4 Statement of Comprehensive

Insurance revenue

Insurance service expenses

Reinsurance expenses from reinsurance contracts held

Reinsurance income from reinsurance contracts held

Insurance service result

Finance expenses from insurance contracts issued – PMSA

Other operating expenses

Other income

Investment income

Other expenditure

Finance costs

Net surplus for the year

Other comprehensive income

TOTAL COMPREHENSIVE INCOME



Changes to the balance sheet of a Medical Scheme

IFRS 4 Statement of Financial Position

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

IFRS 17 Statement of Financial Position

ASSETS

Reinsurance contract assets

Financial assets at fair value through profit or loss

Trade and other receivables

Cash and cash equivalents

TOTAL ASSETS

LIABILITIES

Non-current liabilities

Insurance contract liabilities

Current liabilities

Trade and other payables

Insurance contract liabilities

Reinsurance contract liabilities

TOTALS LIABILITIES



Application of the principles for medical schemes

1. Consistent **recognition and treatment of insurance** (inwards) and reinsurance (outwards) contracts
 - Contracts issued to members are insurance contracts
 - Need to identify all cash flows required to fulfil the insurance contracts (but no others), including acquisition costs, admin fees, managed care fees etc.
 - Risk transfer arrangements to be treated as reinsurance

2. **Separating distinct components** of contracts with no insurance risk and applying other accounting standards to them to ensure consistency
 - Personal Medical Savings Accounts (PMSA's) are not distinct as they are highly interrelated with the insurance component and cannot be purchased separately
 - Consideration is required for wellness programmes and other services

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Application of the principles for medical schemes

3. **Measuring** insurance and reinsurance contract **liabilities** using consistent principles and relevant assumptions

- Medical scheme contracts are generally ≤ 12 months and are typically recognised on 1 January or when cover starts
- Assuming coverage period ≤ 12 months, PAA can automatically be used, and if aligned to the financial year, only a LIC is required at the year-end
- A risk adjustment is required as part of the LIC
- Discounting is not required for most schemes given that claims run-off is ≤ 12 months (as are coverage periods)

4. Ensuring **no up-front recognition of profit**, but **immediate recognition of losses** from writing insurance contracts

- Contracts will be onerous if the scheme (or option) is priced at a deficit and the accumulated funds (i.e. liability due to future members) is not expected to be sufficient to absorb the deficit
- However, note that profitability is measured on an IFRS 17 basis (BEL + RA of the LRC)
- Onerous contracts (and their losses) are recognised “when [they] become onerous”, so therefore at the previous year-end – schemes need to estimate the future fulfilment cash flows at this date

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Measurement – key aspects

Best estimate liability

- Only data as at valuation date can be used
- Alternative methods investigated

Risk adjustment

Risk adjustment = reflects 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

Includes: claims, lapse, expense risks, but

Excludes: risks not related to fulfilling current contracts and financial risks

May use a confidence interval approach (or other, for example, cost of capital approach), but must disclose the resulting percentile on the distribution of the fulfilment cash flows

Attributable expenses

- Expenses, including acquisition expenses and an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts
- Generally, excludes investment expenses

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Application of the principles for medical schemes

5. Recognising reinsurance profits upfront which offset losses on the underlying insurance contracts
 6. **Recognising profit as the services are provided** over the coverage period
 7. Deferring to future periods the recognition of changes in profitability relating to future service
 8. **Grouping** (by portfolio, cohort and profitability) contracts so that the impacts on profitability of subsequent changes may offset each other within the group (in limited circumstances: profits and losses **offset at initial recognition**)
- Only relevant should accumulated funds be insufficient to cover expected deficit on an IFRS 17 basis. If so, this is dependent on whether the medical scheme has entered into the reinsurance contract by the year-end
 - Will be fully recognised by year-end for contracts with coverage period = financial year, with adjustment for debtors, impairments, and outstanding claims and recoveries (measured in the LIC)
 - Only relevant where the PAA cannot be used and the general model must be used instead
 - Portfolio usually at the scheme level as the contracts are subject to similar risks and managed together (the IFRS 17 definition of a portfolio), but assessment must still be made
 - If contracts would fall into different profitability groups because law or regulation specifically constrains pricing for policyholder characteristics, the entity may include those contracts in the same group – relevant for schemes which usually have one group

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Application of the principles for medical schemes

9. Separately presenting:

- a. Insurance revenue which represents earned premiums, excluding deposit-type components
 - b. Insurance service expenses
 - c. Finance income or expenses (the financing effects of insurance contracts, i.e. discounting)
- PMSA's are likely to be non-distinct investment components, the cash flows of which are excluded from revenue and service expenses
 - Impairment losses related to contribution and claim receivables would be included in the relevant cash flow
 - Need to exclude non-attributable expenses and other cash flows, for example, investment expenses and other operating costs
 - Finance income or expenses (FIE) zero if no discounting, unless there are PMSA's, then interest in FIE

Additional disclosure requirements



	LRC	LIC		Total
	Excl. loss component	BEL	RA	
Total - Insurance contracts issued				
Opening insurance contract assets	-	-	-	-
Opening insurance contract liabilities	X	X	X	X
Insurance contract liabilities/(Insurance contract assets) as at 1 January 2023	X	X	X	X
Total insurance revenue	X	-	-	X
Incurred claims and other directly attributable expenses	-	X	X	X
Changes that relate to past service - adjustments to the LIC	-	X	X	X
Insurance acquisition cash flows amortisation	X	-	-	X
Total insurance service expenses	X	X	X	X
Insurance service result	X	X	X	X
Finance (income)/expenses from insurance contracts issued	-	X	-	X
Total amounts recognised in comprehensive income	X	X	X	X
Investment components	X	X	-	-
Other changes: Premium debtors to LIC	X	X	-	-
Cash flows				
Contributions received	X	X	-	X
Claims and other directly attributable expenses paid	-	X	-	X
Insurance acquisition cash flows paid	X	-	-	X
Total cash flows	X	X	-	X
Insurance contract liabilities/(Insurance contract assets) as at 31 December 2023	X	X	X	X
Closing insurance contract assets	-	-	-	-
Closing insurance contract liabilities	X	X	X	X



Key Take Aways

1. Biggest shift relates to **presentation** and change from “accumulated funds” to “liability due to future members” due to mutual accounting treatment
2. More minor changes to **measurement** including only using valuation date data and the introduction of the risk adjustment
3. Overall reliance on **industry guidance** slowed progress and adoption
4. Has IFRS 17 added **value** for medical schemes?

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