



THE 15th ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS
November 21-22, 2023, in Brisbane, Australia.

Korea's Experience with Implementation of IFRS 17

Jay Jeong-Hyeok Park
Board Member of KASB

2023 . 11 . 22

CONTENTS

Korea's Experience with
Implementation of IFRS 17



01 **IFRS 17 Adoption Status in Korea**

02 **Types of Insurance Accounting in Korea**

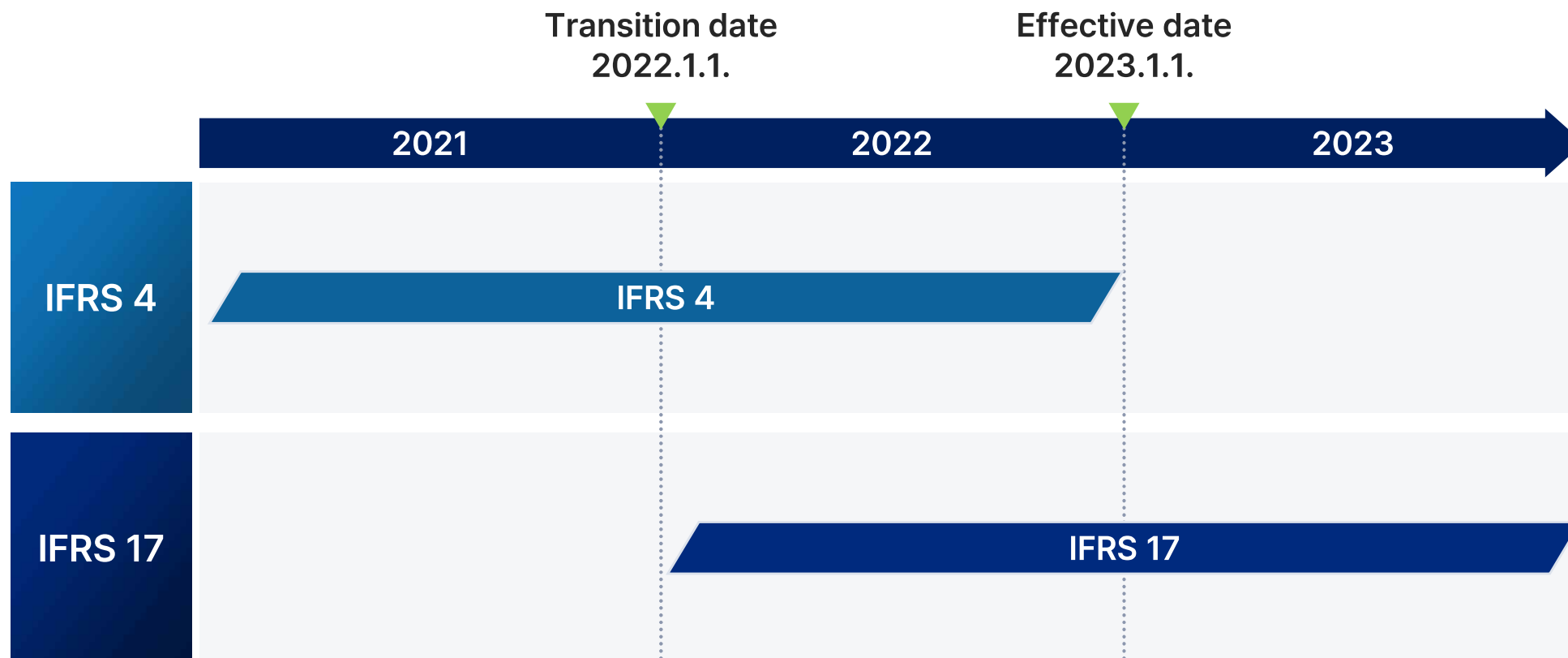
03 **Considerations for IFRS 17 Systems**

04 **Observations from User Feedback**

05 **Practical Issues**

06 **Closing Remarks**

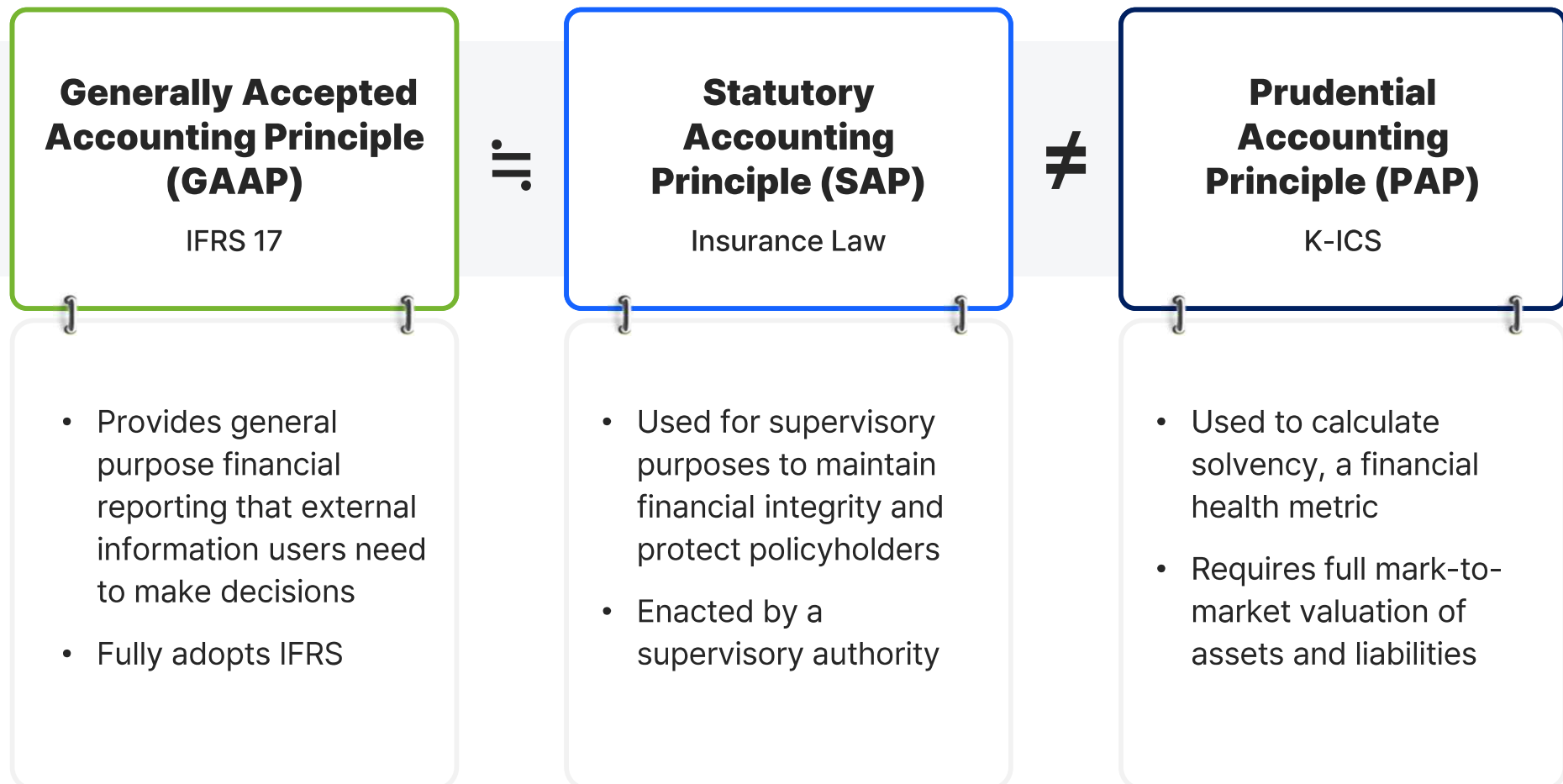
Timeline: presentation and disclosure under IFRS 17



- Korea fully adopted IFRS 17 on 1 January 2023, making it one of the first-generation adopters.
- IFRS 17 is mandatory for all insurance companies, both listed and unlisted, that apply IFRS.
- Financial statements with IFRS 17 are filed from 1 January 2022, applying requirements to present comparative information (IFRS 17 paragraphs BC387–BC388).

02 Types of Insurance Accounting in Korea

Three different types of financial statements



03 Considerations for IFRS 17 systems

A key question is:

Will we still be able to do our financial reporting and disclosure work as effectively in the new world as we do now?

IFRS 9, IFRS 17

IAS 39, IFRS 4

Speed

- ✓ Will there be any delays in the closing schedule?

Data

- ✓ How will we ensure the accuracy of the closing process?

03 Considerations for IFRS 17 systems

A new world requires changes in the system.

Increased **complexity** of closing process

- **Changes in:**
 - **insurance liability valuation method**
: cost-based → fair value-based
 - **accounting model**
 - **presentation and disclosure** requirements
- Preparation of **FS under IFRS 4** is still needed for:
 - managing **surrender values**
 - addressing the duality between GAAP and SAP



Expansion of **the amount** of managed **information**

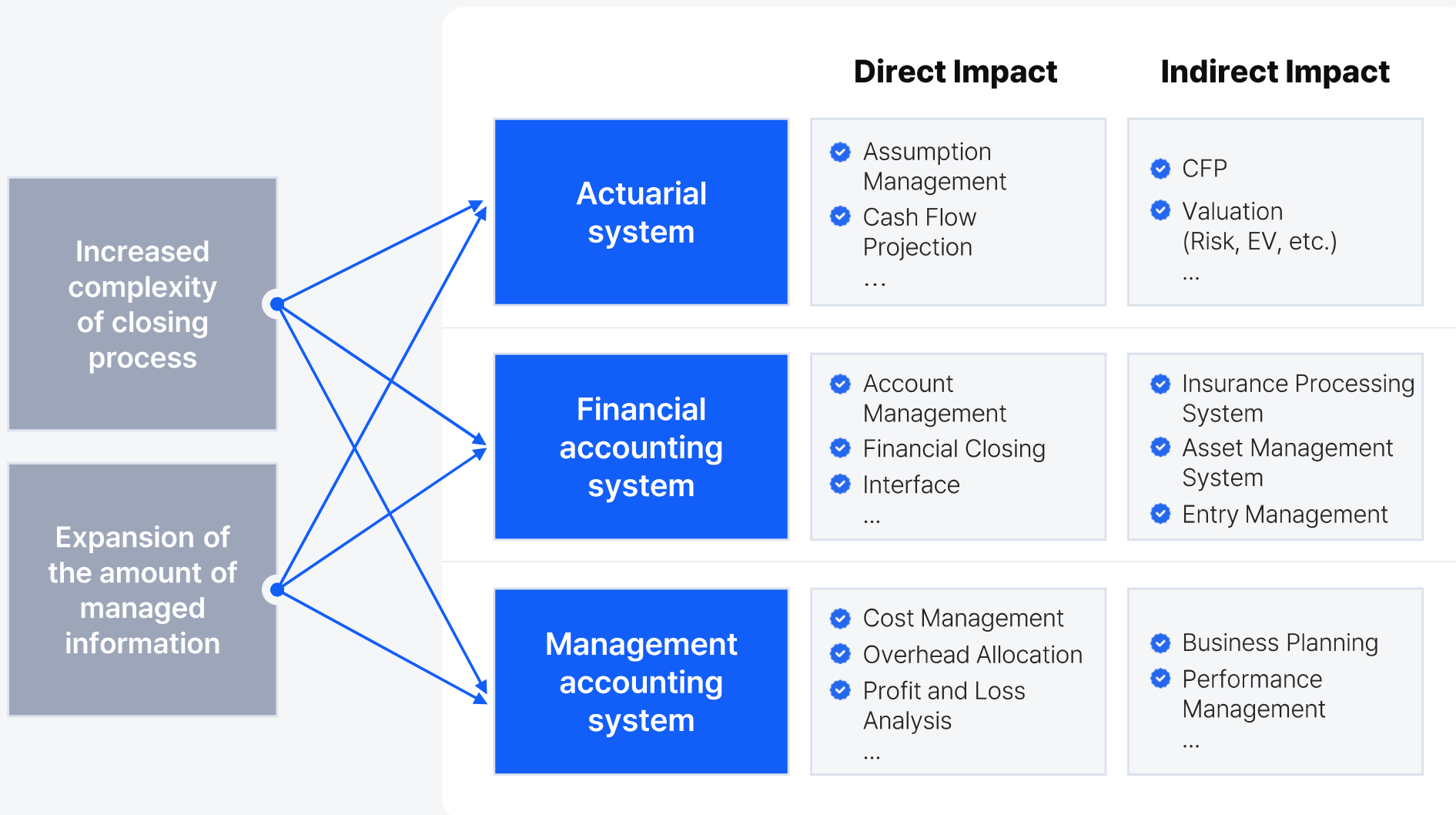
- Insurance liabilities must be **evaluated on a policy (or coverage) basis.**
- There is a significant increase in fundamental data (cash flows) for
 - the application of various **scenarios**
 - the analysis of changing **factors**
 - the management of optimal assumptions at **various time points**



Requires system changes

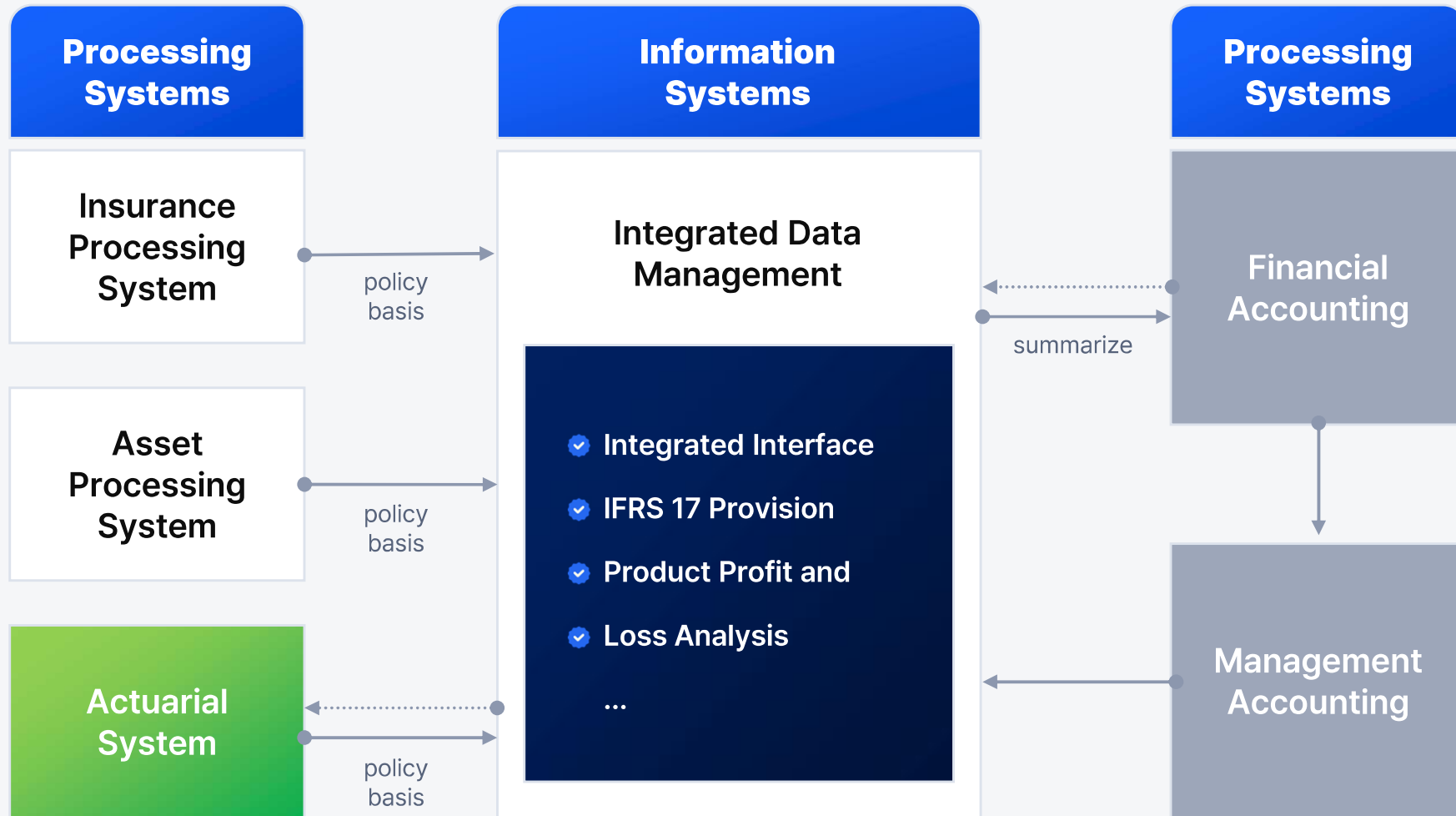
03 Considerations for IFRS 17 systems

» Scope of Related Systems

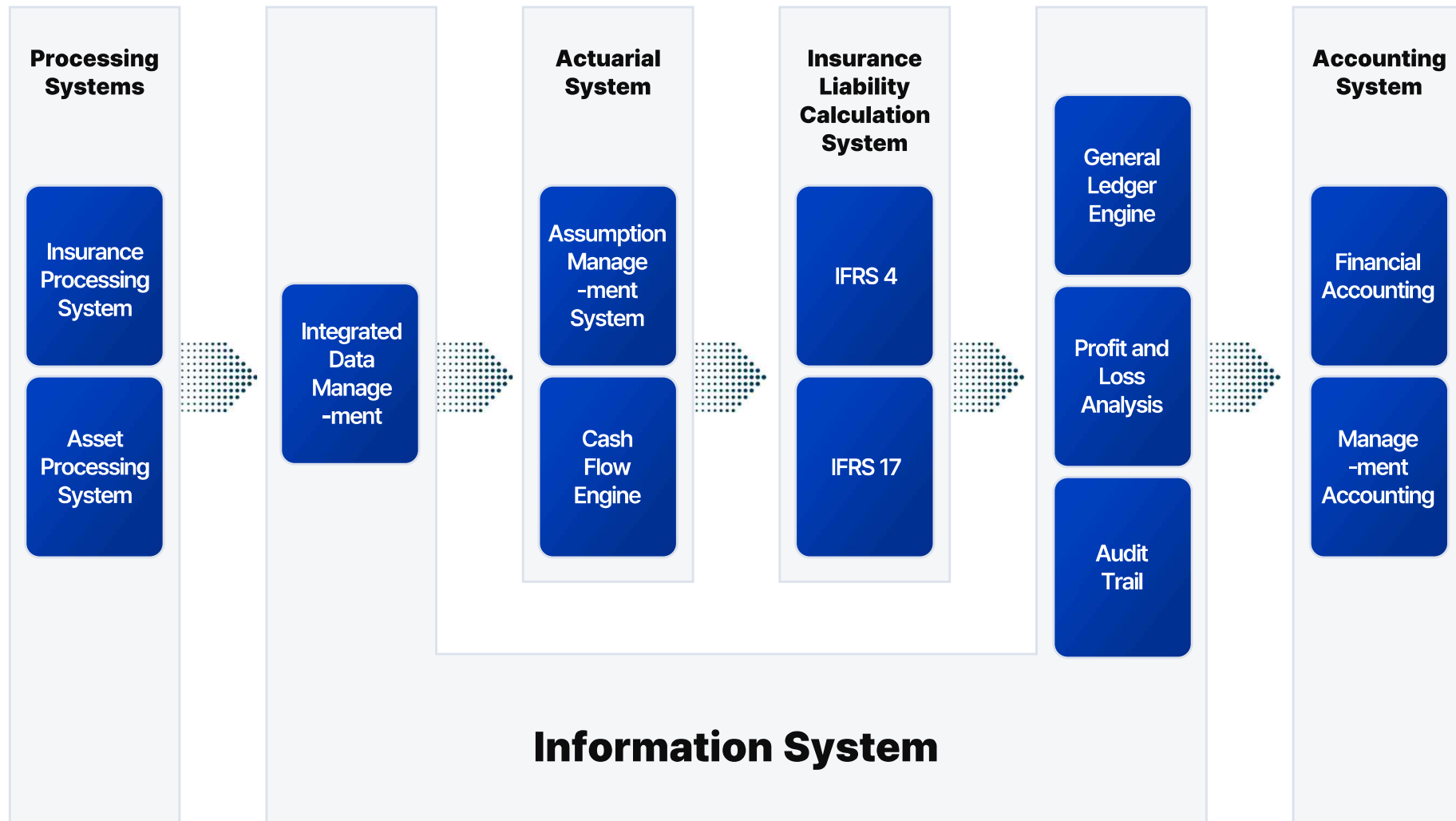


03 Considerations for IFRS 17 systems

Integrated Data Management

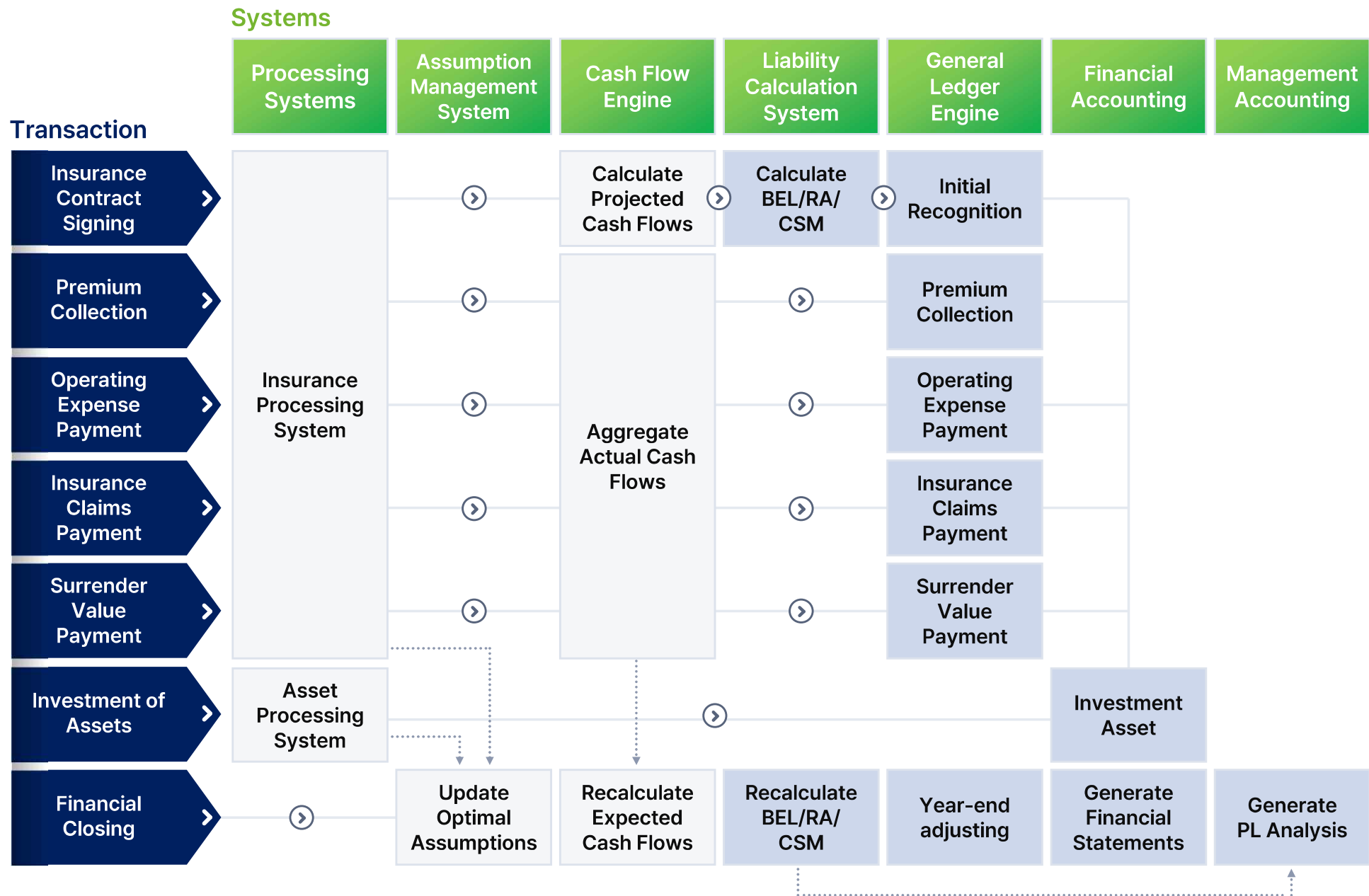


System Architecture



03

Considerations for IFRS 17 systems



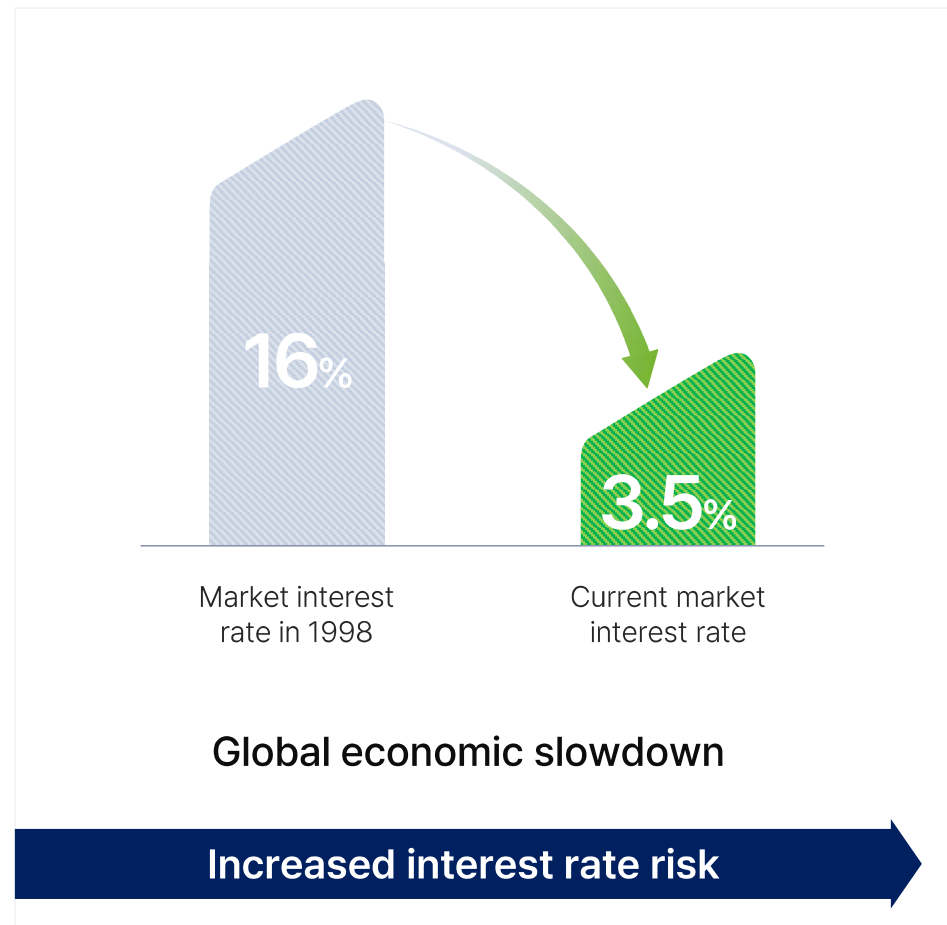
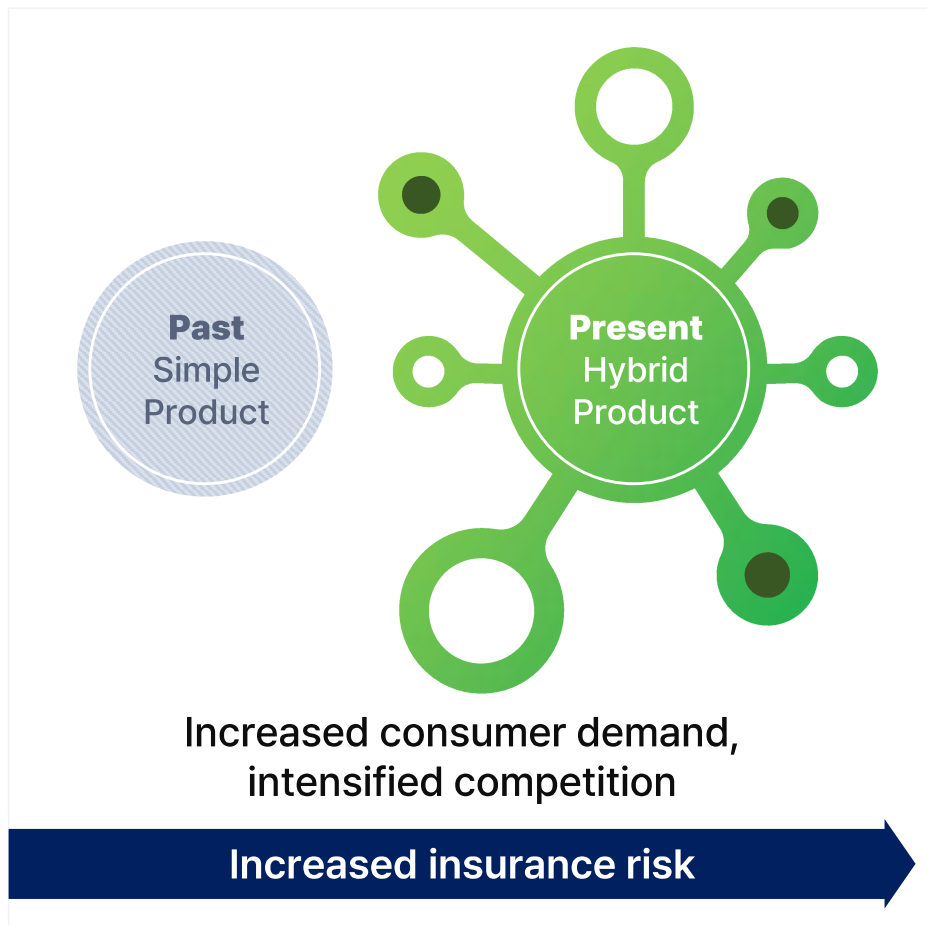
04 Observations from User Feedback

“The simultaneous application of IFRS 17 and IFRS 9 resolves the distortion in net asset presentation and contributes to a successful ALM.”



04 Observations from User Feedback

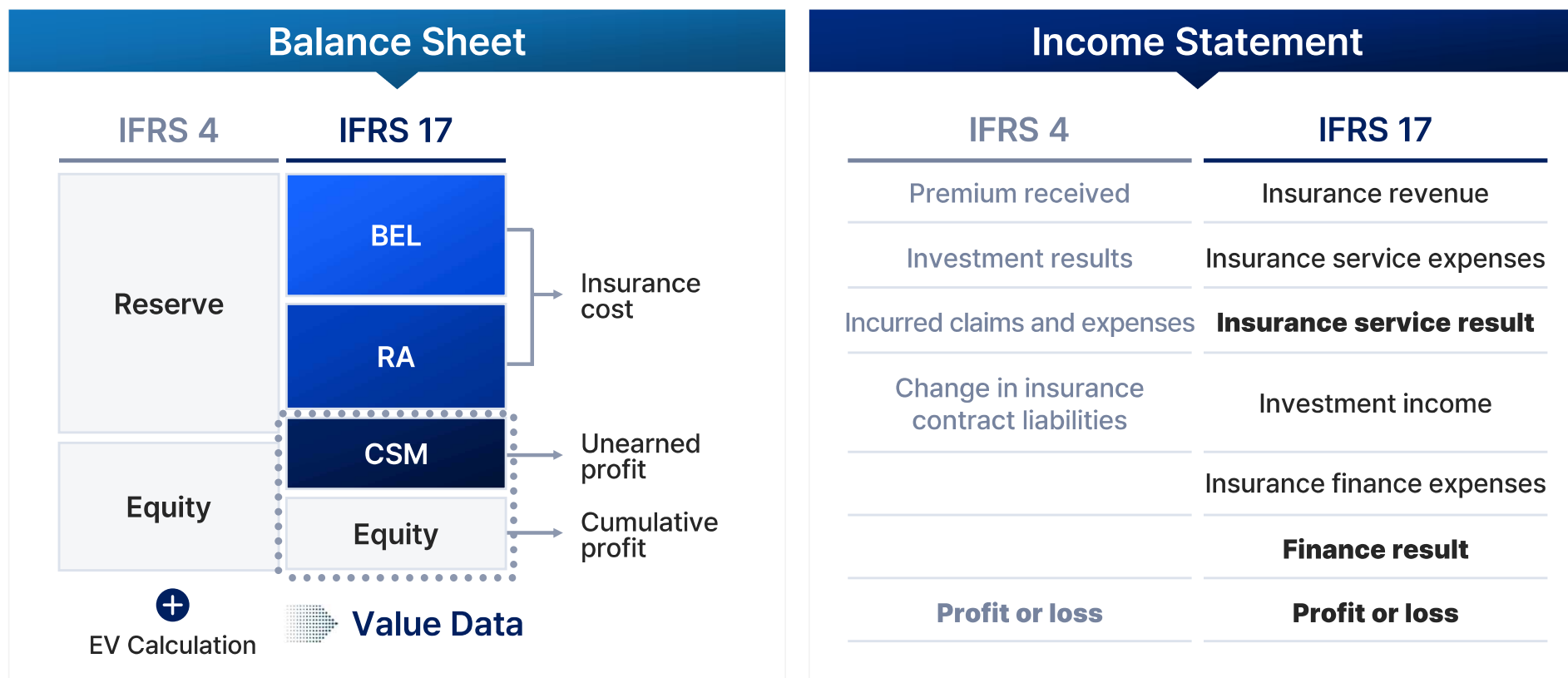
"IFRS 17 reflects the substantive risks in the insurance industry."



- Insurers are exposed to various risks due to the complexity of the insurance environment.
- The interest rate risk of products sold in the past continues to increase.

04 Observations from User Feedback

“IFRS 17 source-of-earning type income statement has richer information content that will be more relevant and comparable”



- Disclosing CSM encourages value-based management and enhances the meaningfulness of the balance sheet.
- Insurance reserve liability, which was previously presented as a single line item, is now displayed from top to bottom in profit or loss statement, thereby resulting in an increase in the usefulness of accounting information.

04 Observations from User Feedback

“Insurance liabilities are presented separately as cost and margin.”

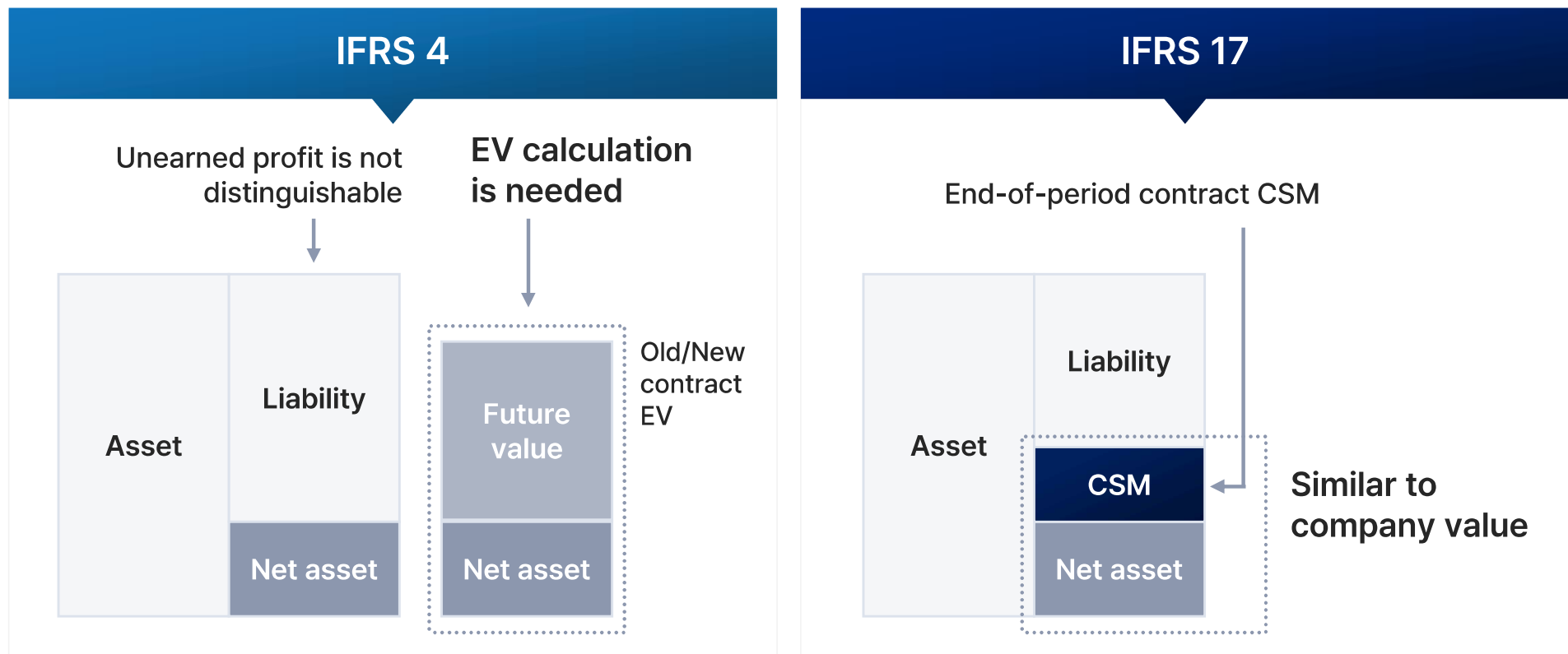
BEL+RA

CSM



04 Observations from User Feedback

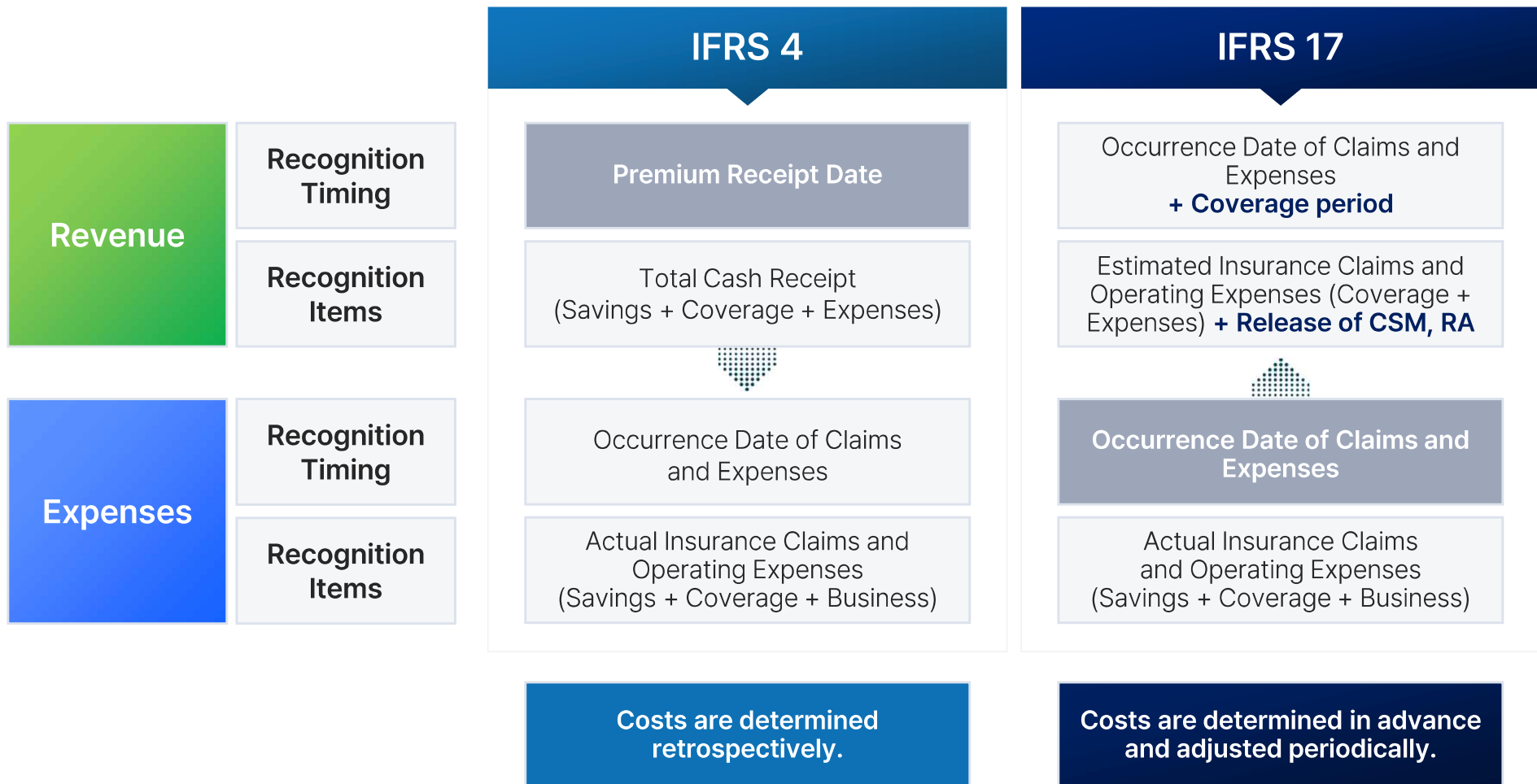
“Direct comparisons of value (CSM) are expected to accelerate value-oriented management.”



- In the past, EV (Embedded Value) was calculated and disclosed separately from financial statements.
- Under IFRS 17, companies will be required to directly disclose the CSM (Contractual Service Margin) that corresponds to the company's value.

04 Observations from User Feedback

“Because revenue is recognised at the point of service delivery, it is easier to compare performance with other industries.”

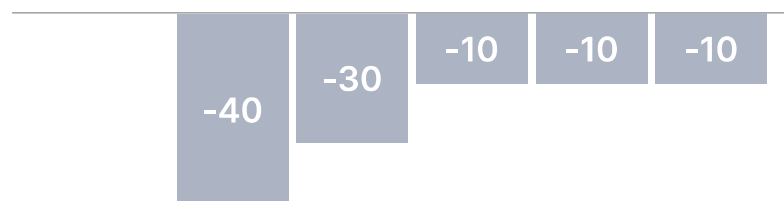


04 Observations from User Feedback

“As losses are recognised immediately for a group of contracts that is or becomes loss-making, it becomes more difficult to sell.”

IFRS 4

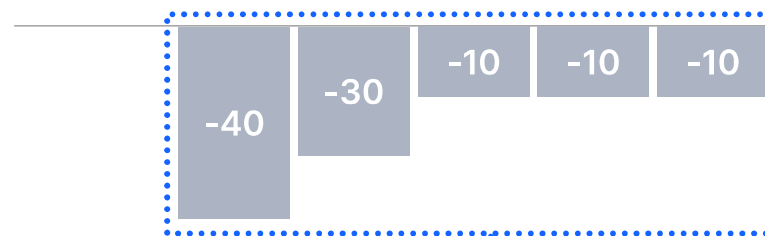
Revenue-Expenses



- Only current period's profit or loss is recognized
- Future losses do not affect the current period

IFRS 17

Revenue-Expenses



- The entire expected future losses are recognized in current period at the point of sale, and thereafter
- Profit or loss for the following periods is '0'

05 Top 10 Practical issues

1 GAAP vs SAP

GAAP	VS	SAP
Conceptual frameworks	Foundation	Regulatory frameworks
Investors and analysts	Users	Regulatory authorities
Company's own statistics	Assumption approach	Industry average statistics
Entity-specific perspective	Based on	Regulator's perspective



In theory, GAAP \neq SAP

Korean insurers may be required to prepare two sets of financial statements if they determine that SAP financial statements differ from the conceptual framework of IFRS.

2 Transition reliefs

- Permit optional fair value approach or modified retrospective approach (IFRS 17 paragraphs C3 and C5)
- Different measurement approaches result in different amounts of equity and CSM on transition

05 Top 10 Practical issues

3 Actuarial assumptions

- Moving to a best estimate basis, companies measure insurance liabilities, which consist of the best estimate liability (BEL), risk adjustments (RA) and the contractual service margin (CSM). (IFRS 17 paragraphs B36–B60)
- Estimation errors decrease over time within the IFRS 17 adjustment structure.
- In the short term, there may be an incentive to report a higher CSM by using optimistic assumptions.
 - ✔ New insurance products that lack historical statistics

4 Expenses (Acquisition costs)

- Insurers have an incentive to increase sales by developing products with as high a CSM as possible. In case of acquisition costs,
 - ✔ Regulators required immediate expense recognition for acquisition costs that exceed a certain threshold set by the regulator under IFRS 4
 - ✔ However, they will be expensed over the coverage period under IFRS 17

05 Top 10 Practical issues

5 Unit of account

- Multiple accounting units suggested by IFRS 17 cause confusion in application.

Components from insurance contract

An insurance contract may contain **one or more components** that would be within the scope of another Standard if they were separate contracts. (para. 10)

Individual insurance contract

The **most granular unit of accounting** with commercial substance. The objective of the requirement to identify contracts that are onerous at initial recognition is to identify contracts that are onerous measured as individual contracts. (para. BC129)

A set of insurance contracts

It may measure **the set of contracts** to determine if the contracts are onerous and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently. (para. 17)

Group of insurance contracts

An entity shall apply the **recognition and measurement** requirements of IFRS 17 to the groups of contracts. (para.24) 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. (para. B119)

Portfolio of insurance contracts

An entity to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. An entity shall apply its **choice of accounting policy** to portfolios of insurance contracts. (para. B129)



How do we account for the related OCI and CSM when an intra-group contract is eliminated?

05 Top 10 Practical issues

6 Accounting model

- Entities need to apply judgement in determining (para. B101)
 - (a) whether insurance contracts have direct participation features
 - (b) appropriate accounting model
- The choice of accounting policy has a significant impact on financial results.

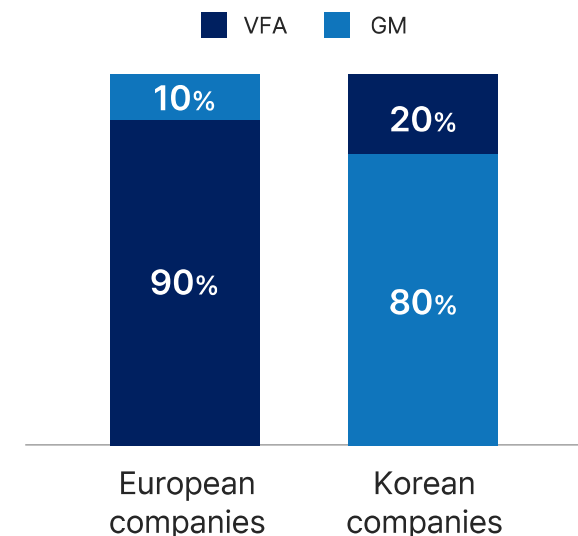


— COMMISSION REGULATION (EU) 2021/2036 Article 2

2. By way of derogation from paragraph 1, a company may choose not to apply the requirement laid down in paragraph 22 of the Annex to this Regulation to:

(a) groups of insurance contracts with direct participation features and groups of investment contracts with discretionary participation features as defined in Appendix A to the Annex to this Regulation, and with cash flows that affect or are affected by cash flows to policyholders of other contracts as laid down in paragraphs B67 and B68 of Appendix B of that Annex;

- ✓ **An entity shall not include contracts issued more than one year apart in the same group. (IFRS 17 paragraph 22)**



Comparability?

05 Top 10 Practical issues

7 Insurance finance income and expenses issues - PL approach vs OCI approach

Statement of P&L	
Insurance revenue	X
Insurance service expense	(X)
Insurance service result	X
Investment income	X
Insurance finance expenses	(X)
Finance result	X
Profit (or Loss)	X

Statement of Comprehensive Income	
Profit (or Loss)	X
OCI: Insurance finance expenses (Optional)	(X)
Total comprehensive Income	X



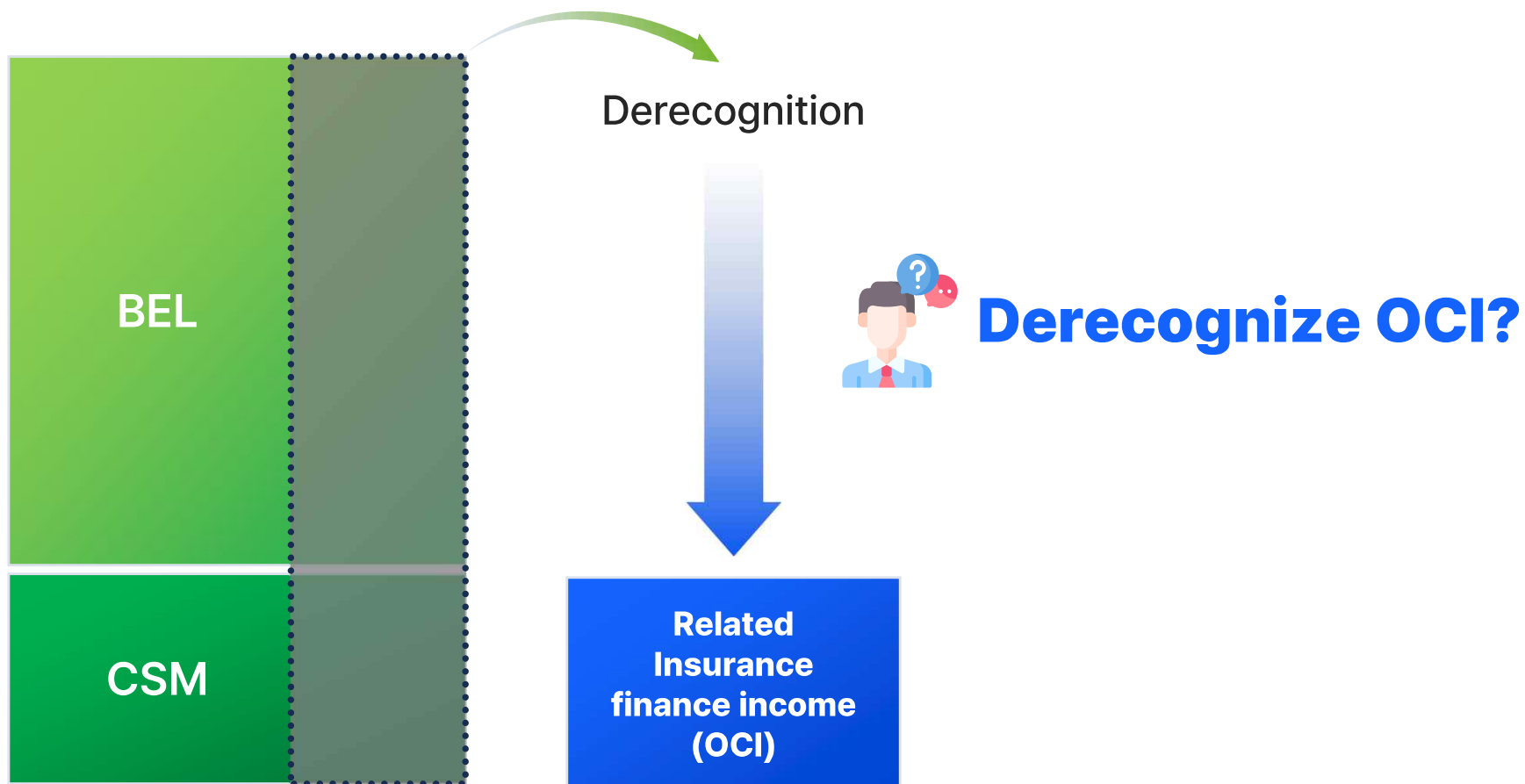
How to allocate?



IFRS 17 paragraph BC42, IFRS 17 paragraph 88, 89

05 Top 10 Practical issues

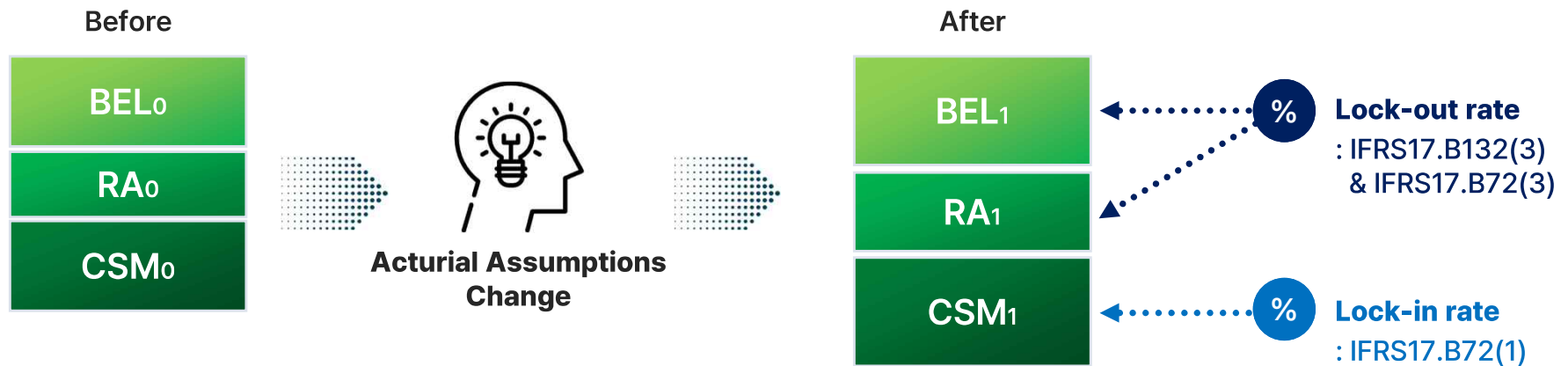
8 Insurance finance income and expenses issues - Derecognition of OCI



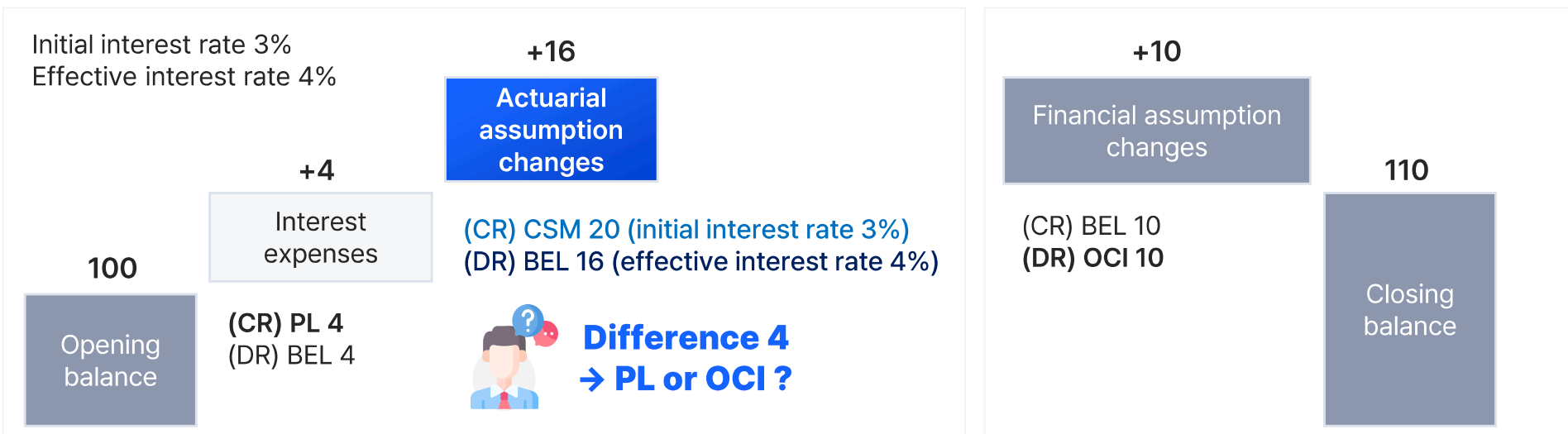
IFRS 17 paragraph 76

05 Top 10 Practical issues

9 Insurance finance income and expenses issues - Different discount rates (BEL/CSM)

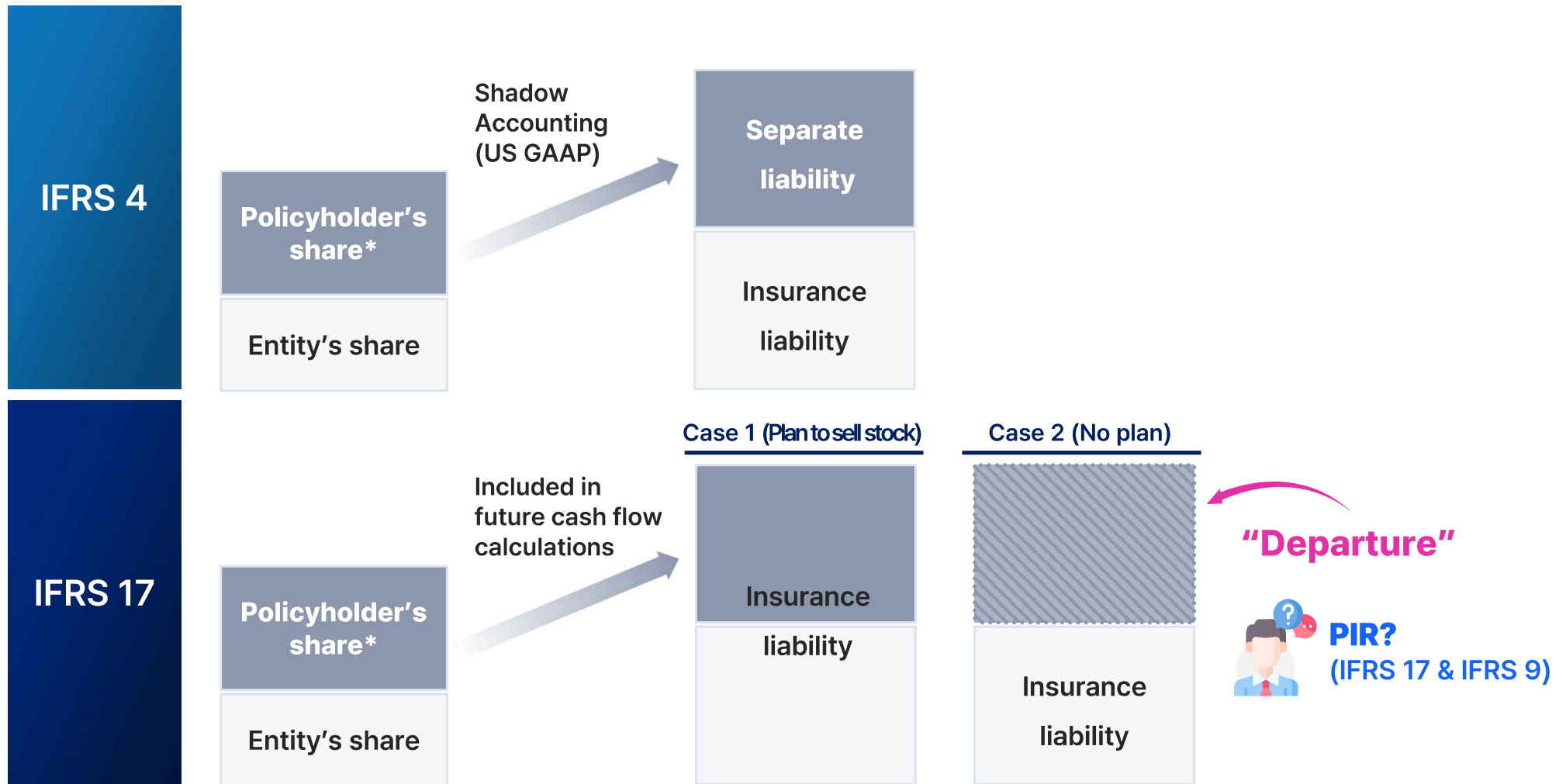


Example: Liability measurement for remaining coverage



05 Top 10 Practical issues

10 Departure from IFRS 17 (IAS 1 paragraph 19)



* policyholder's share of unrealized gains and losses of AFS (FVOCI with no recycling)

06 Closing Remarks

