Application of IFRS 17 in Korea

Life Insurance

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※ The views expressed in this presentation are those of the presenters.
Official positions of the KASB on accounting matters are determined only after extensive due process and deliberation.

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1) Measurement Models of Insurance Contracts

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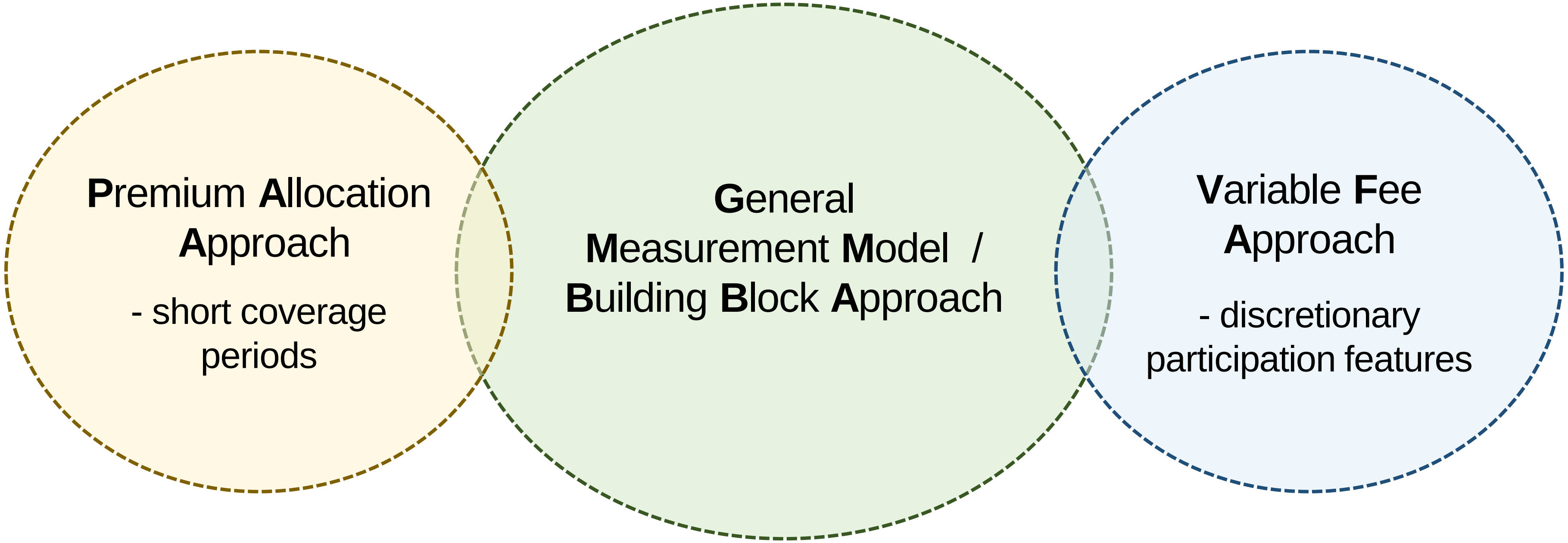
1.1. Measurement Models of Insurance Contracts



- Measurement model for contracts having short coverage period (one year or less)
- Short-term life and certain group contracts (i.e. auto insurance)
- LRC: premiums – insurance acquisition cash flows

- Measurement model for long-term business or whole life insurance (incl. savings, life, death etc.
- LRC: Measured by the calculation of BEL, RA, CSM

- Measurement model for unit-linked contracts having variable annuities or equity index-linked contracts
- Not applicable to reinsurance contracts
- LRC: Measured by the calculation of BEL, RA, CSM

2. Introduction to the General Measurement Model (GMM)

1) Composition of Insurance Contract Liabilities
2) Subsequent Measurement
3) Recognition of Insurance Revenue and Expenses

2.1. Composition of Insurance Contract Liabilities

Insurance Contract Liabilities

Fulfillment Cash Flows

Best Estimate Liabilities (BEL)

Contractual Service Margin (CSM)

- Expected contract profit to be earned as services are fulfilled

Risk Adjustment (RA)

- Entity specific assessment of the uncertainty about the amount and timing of future cash flows

Time Value of Money

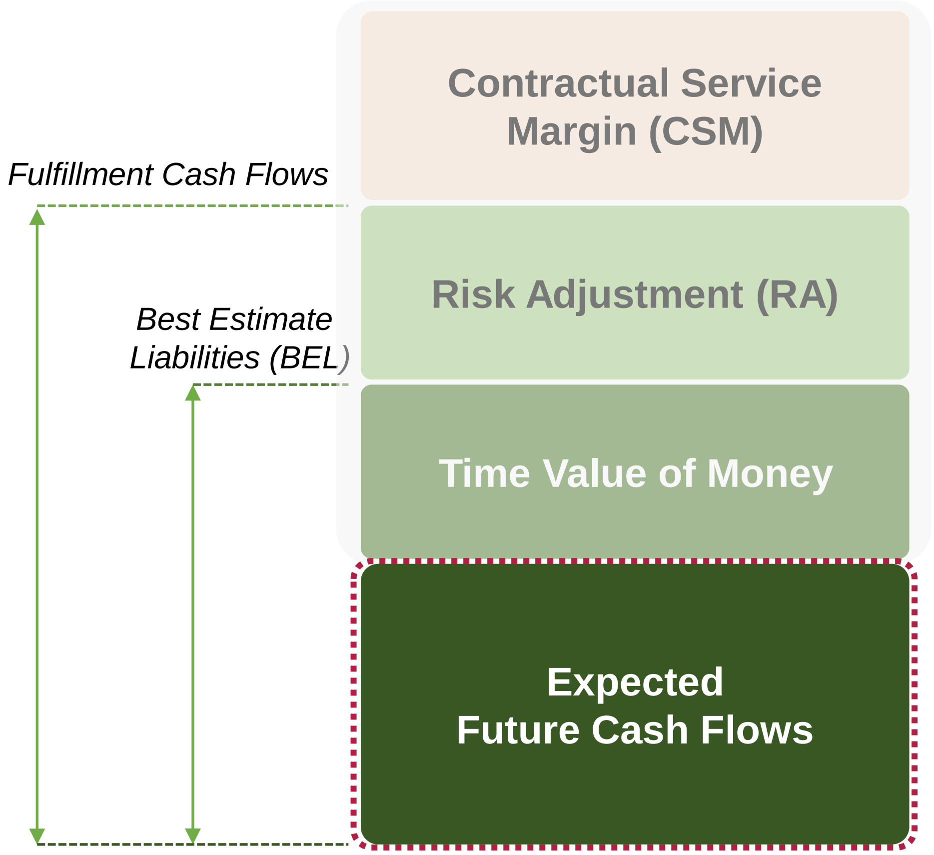
- An adjustment converting future cash flows into the present value

Expected Future Cash Flows

- Expected cash flows from premiums, claims, benefits, expenses and acquisition costs
- The total sum of all the nominal future cash flows related to the fulfillment of obligations within the contract boundary

2.1. Composition of Insurance Contract Liabilities – Future Cash Flows

Insurance Contract Liabilities



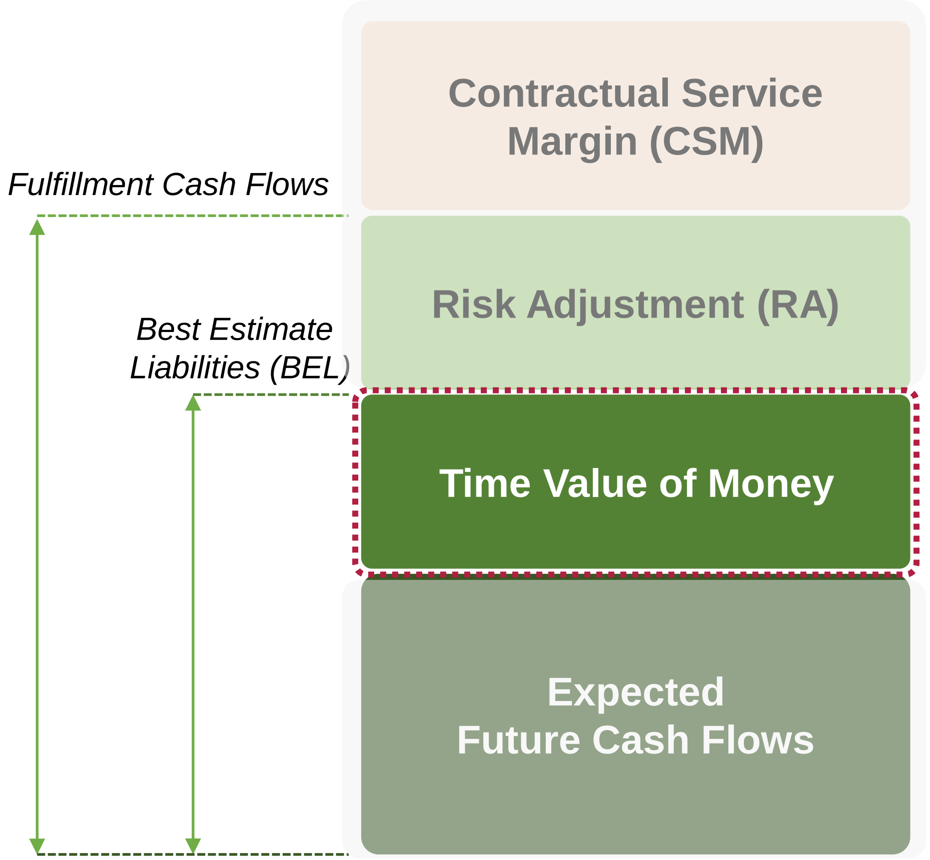
Expected Future Cash Flows

- Include all the future cash flows within the boundary of each contract in the group
- Incorporate all reasonable and supportable information available about the amount, timing, and uncertainty of future cash flows.
- Reflect the perspective of the entity
- Reflect existing conditions as well as future assumptions made at the date of measurement
- Establish estimated future cash flows based on explicit cash flow estimated separately from the adjustment for the time value of money and RA

02 Introduction to the General Measurement Model (GMM)

2.1. Composition of Insurance Contract Liabilities – TVM

Insurance Contract Liabilities

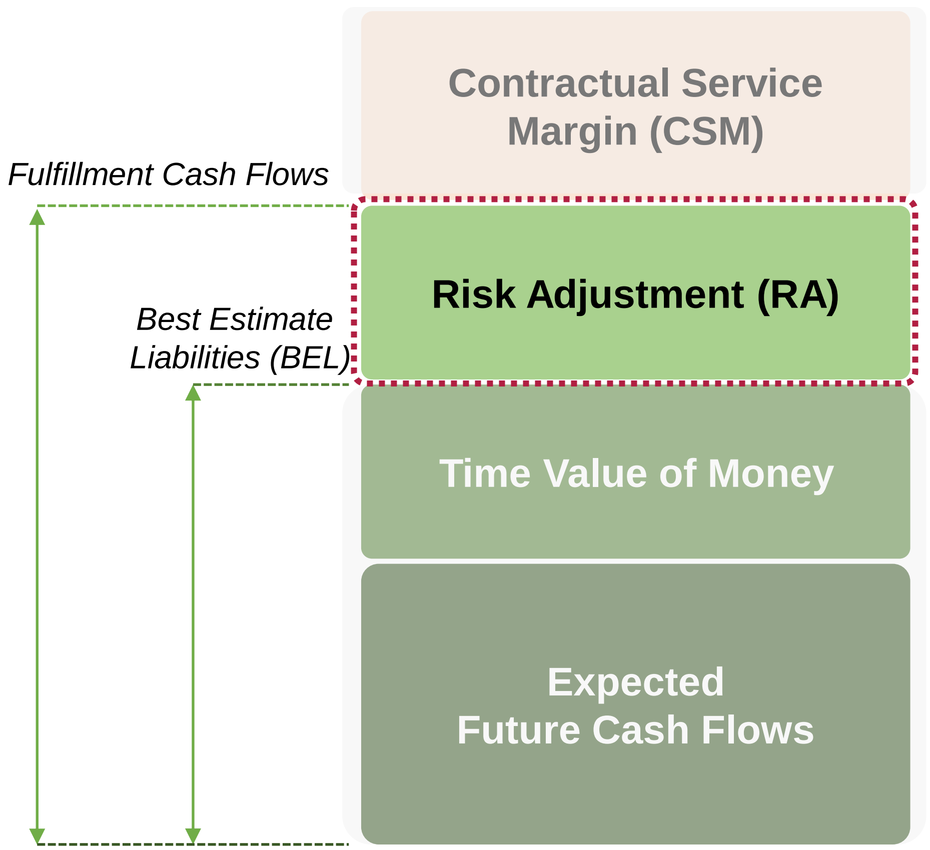


Time Value of Money

- Apply appropriate discount rates under IFRS 17
- Reflect the time value of money and the liquidity characteristics of the insurance contracts
- Exclude the effect of factors that do not affect the future cash flows
- Calculate by a bottom-up approach or a top-down approach
- Choose between appropriate accounting policies: (a) include insurance finance income(expenses) in profit or loss; and (b) disaggregate the related amount to include in profit or loss an amount determined by a systematic allocation

2.1. Composition of Insurance Contract Liabilities – Risk Adjustment

Insurance Contract Liabilities



Risk Adjustment (RA)

- The amount related to non-financial risks, and considered to be compensation to insurers for the uncertainty of the amount and timing of cash flows
- The compensation that the entity would require to make the entity indifferent between:

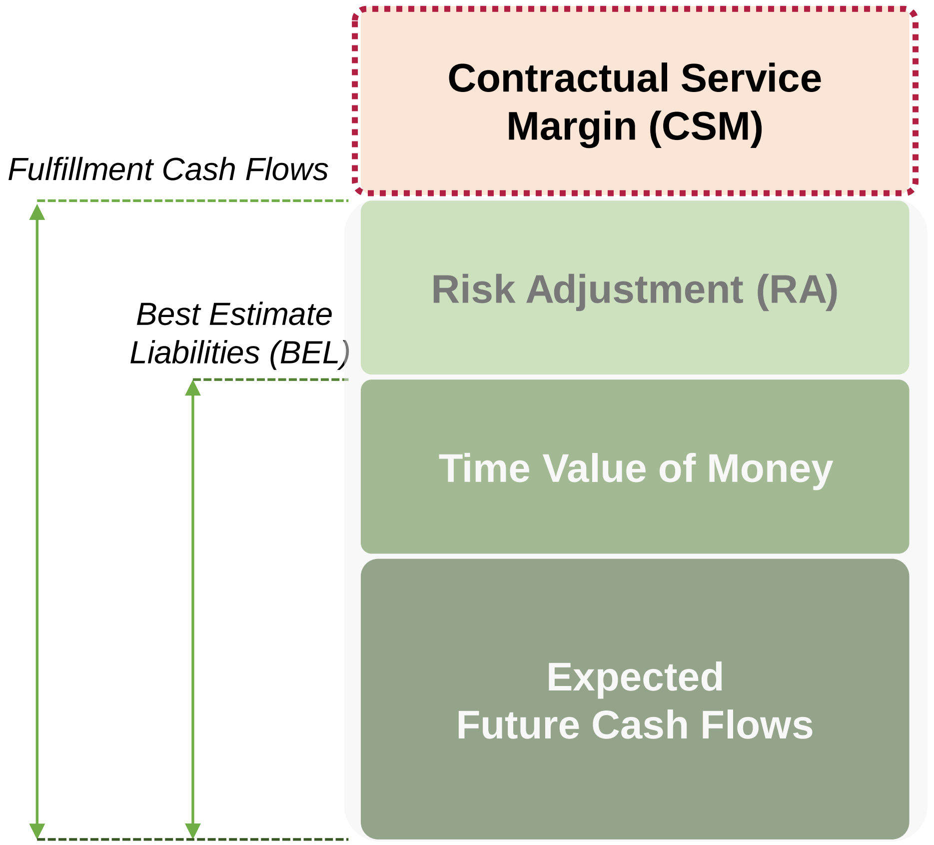
(a) Fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and

(b) Fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts

- Note: there are no specific estimation techniques used to determine the RA under IFRS 17

2.1. Composition of Insurance Contract Liabilities – Contractual Service Margin

Insurance Contract Liabilities



Contractual Service Margin (CSM)

- Represents the unearned profit the entity will recognized as it provides insurance contract services
- Resulted from the accrual basis of accounting adopted by IFRS 17
- Measured by the amount on initial recognition of a group of insurance contracts
- Is considered zero for onerous contracts

2.2. Subsequent Measurement – Insurance Contract Liabilities

Initial recognition	*Subsequent Measurement*	
	PL or OCI items	
Insurance Contract Liabilities on initial recognition	**LRC (Liability for Remaining Coverage)**	• An entities obligation regarding (a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred, and (b) pay amounts under existing insurance contract services that related to insurance contract services not yet provided etc. • Consist of the fulfillment cash flows and the contractual service margin of the group at the date
	LIC (Liability for Incurred Claims)	• An entities obligation regarding (a) investigate and pay valid claims for insured events that have already occurred, and (b) pay amounts related to insurance contract services that have already been provided etc. • Consist of the fulfillment cash flows related to past service allocated to the group at that date

2.2. Subsequent Measurement – Contractual Service Margin

Reconciliation of opening and closing CSM

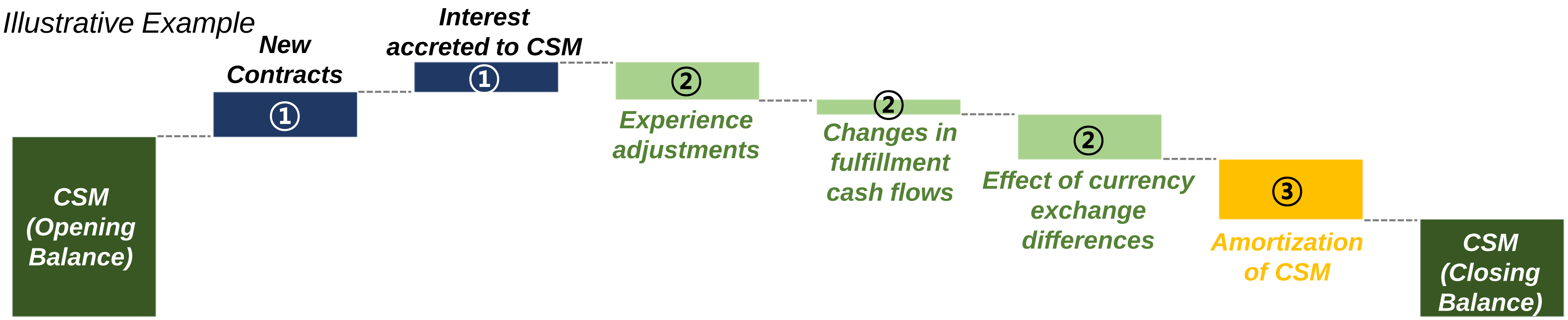
- CSM at the end of the reporting period determined by the amount at the start of the reporting period plus adjustments for following items:

① the effect of new contracts(should increase CSM unless the contracts are considered profitable), and interest accreted on CSM (measured at the discount rates as of the date of initial recognition)

② experience adjustments, changes in fulfillment cash flows, effect of currency exchange: primary factors that affect fluctuation of CSM

③ amortization of CSM: an amount of CSM is amortized and recognized in profit or loss to reflect the insurance contract services provided

Illustrative Example



2.3. Recognition of Insurance Revenue and Expenses

- **Insurance revenue:** the amortized amount of RA and CSM, expected claims and expenses
- **Insurance service expenses**: incurred claims and expenses
- **Insurance finance income or expenses:** the effect of a change in discount rate

How to recognize insurance revenue and expenses

Contractual Service Margin (CSM)	• allocate over the current and remaining coverage period applying paragraph B119
Risk Adjustment (RA)	• changes related to non-financial risk (if an entity makes a disaggregation of changes in RA)
Time Value of Money	• interest expenses (w/ locked-in discount rate) • the effect of changes in discount rate
Expected Future Cash Flows	• changes in cash flows related to past service

P&L Statement	
(A) Insurance revenue	xxx
(B) Insurance service expenses	xxx
(A-B) Insurance service result	xxx
Insurance finance income or expenses	xxx
Net income	xxx
Other comprehensive income	xxx
Total other comprehensive income	xxx

3. Introduction to the Variable Fee Approach (VFA)

1) Eligibility Criteria for the VFA
2) Comparison between the VFA and GMM

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3.1. Eligibility Criteria for the VFA

Insurance contracts that are substantially investment-related service contracts. Hence for which	• Underlying items may comprise a portfolio of assets, net assets of the entity or a subset of assets of the entity • Not necessary for insurer to hold the identified pool of underlying items, so long as clearly identified by the contract
(i) Policyholder contractually participates in clearly identified pool of underlying items	• Does not preclude entity's discretion to vary amounts paid to policyholder, but link must be enforceable • Entity compensated by a fee determined by reference to underlying items • Not a contract with direct participation features if the entity can charge the items with retrospective effect or no underlying items are identified

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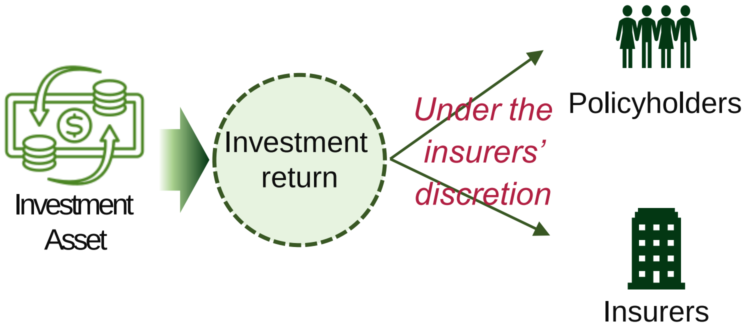
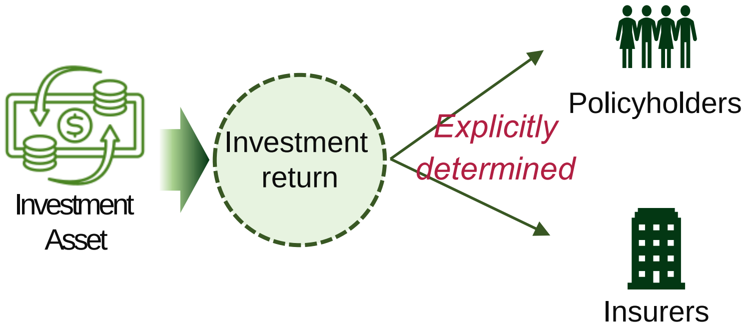
3.1. Eligibility Criteria for the VFA *(cont'd)*

(ii) Policyholder receives substantial share of the returns on the underlying items; and	• For (ii) and (iii) interpret 'substantial' in context of objective that an entity provides investment-related services and is compensated by a fee determined with reference to underlying items • For (ii) and (iii) assess variability over duration of a contract and on a present value probability-weighed average basis
(iii) Changes in policyholder benefits substantially vary with the change in underlying items	• Under (ii) consideration of policyholder share may include fixed charges an entity may deduct from the share in return for providing benefits • Not a contract with direct participation features if the entity can charge the items with retrospective effect or no underlying items are identified

3.2. Comparison between the VFA and GMM

Topic	GMM	VFA
Insurance contract liabilities	BEL + RA +CSM	BEL + RA +CSM
Effect of the changes including an investment return	Recognize as PL or OCI items 	Adjust the CSM 
Interest rate related to the insurance contract liabilities	Measured using **interest rates determined on initial recognition**	Measured using **current interest rates**

4. Key Accounting Policies Developed by Life Insurers

1) Unit of Account
2) Contract Boundaries
3) Insurance Finance Income and Expenses (PL Approach vs OCI Approach)
4) Other Accounting Policies

04 Key Accounting Policies Developed by Life Insurers

4.1. Unit of Account

Topic	Details
Identifying portfolios of insurance contracts	• Contracts subject to similar risks and managed together are considered the same portfolio • Contracts within a product line are expected to have similar risks • Illustrative examples related to the policy of life insurers in Korea • Be sure to apply consistent accounting methods within the same portfolios (measurement model for the insurance liabilities, recognition of the effect of a change in discount rate etc.)

Life Insurance

Similar risk	Single Group
Death	Non-par
	Par
	Variable
Health	Non-par
	Par
	Variable
Pension/ Savings	Non-par
	Par
	Variable
	Asset-linked
Others	Non-par
	Par
	Variable

Long-term Non-life Insurance

Similar risk	Single Group
Casualty	Non-par
	Par
Disease	Non-par
	Par
Property	Non-par
	Par
Pension/ Savings	Non-par
	Par
	Asset-linked
Others	Non-par
	Par

General non-life Insurance

Collateral
Fire
Comprehensive
Marine
Worker Compensation
Liability
Casualty
Technology
Guarantee
Car
Overseas
Others

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4.1. Unit of Account *(cont'd)*

Topic	Details	
Identifying group contracts	Onerous Contract	• How to assess the possibilities of the group of contracts becoming onerous [Confidence level approach] (a) 2RA > CSM: a group of contracts that are not onerous (b) 0 < CSM < 2RA: a group of contracts have no significant possibility of becoming onerous subsequently (c) Others: Onerous contracts • Not allowed to reassess the composition of the groups subsequently • Not allowed to include contracts issued more than one year apart in the same group
	Level of aggregation	• Annual cohort
	Discount rate	• Apply moving average interest rate within the same cohort

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4.2. Contract Boundaries

Topic	Details
How to set out contract boundaries	• When to determine: Remeasure at each annual reporting period • How to determine (a) an entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (b) Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (c) an entity set contract boundaries under the criteria whether the entity has the practical ability to reassess the risks of particular policyholder or portfolio and, as a result, can set a price or level of benefits that fully reflects those risks.

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4.2. Contract Boundaries *(cont'd)*

Topic	Details
How to set out contract boundaries	• Practical Application (a) Assess contract boundaries based not solely on the host insurance, but on the level of insurance contracts comprising of the host insurance and the riders together. (b) When assessing contract boundaries, be sure to consider the host insurance's maturity with regards to the insurance contracts with renewable rider (example) maturity for host insurance: 30yr, renewal period for rider: 3yr → the range for a contract boundary is considered 30yr (c) Include the 'insurance loading option(additional riders)' in the future cash flow items within the boundary of each contract in the group

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4.3. Insurance Finance Income and Expenses (PL Approach vs OCI Approach)

Topic	Details
Disaggregating 'insurance finance income(expenses) (see paragraph 88(b) and B129 of IFRS 17)	• One of the major life insurers in Korea chooses to disaggregate insurance finance income(expenses) into PL items and OCI items. This is done mainly in the interest of providing useful information to users by clearly presenting the source of profit or loss. • In practice, PL and OCI items are differentiated depending on the nature of the assets when entities choose to disaggregate insurance finance income(expenses). Therefore, in many cases, Korean life insurers hold financial instruments recognized as FVOCI items. In turn, most insurance finance income(expenses) are then considered OCI items. • IFRS 17 requires entities to allocate insurance finance income(expenses) for the period systematically. However, there is no specific guidance on the exact definition of 'systematic allocation.'

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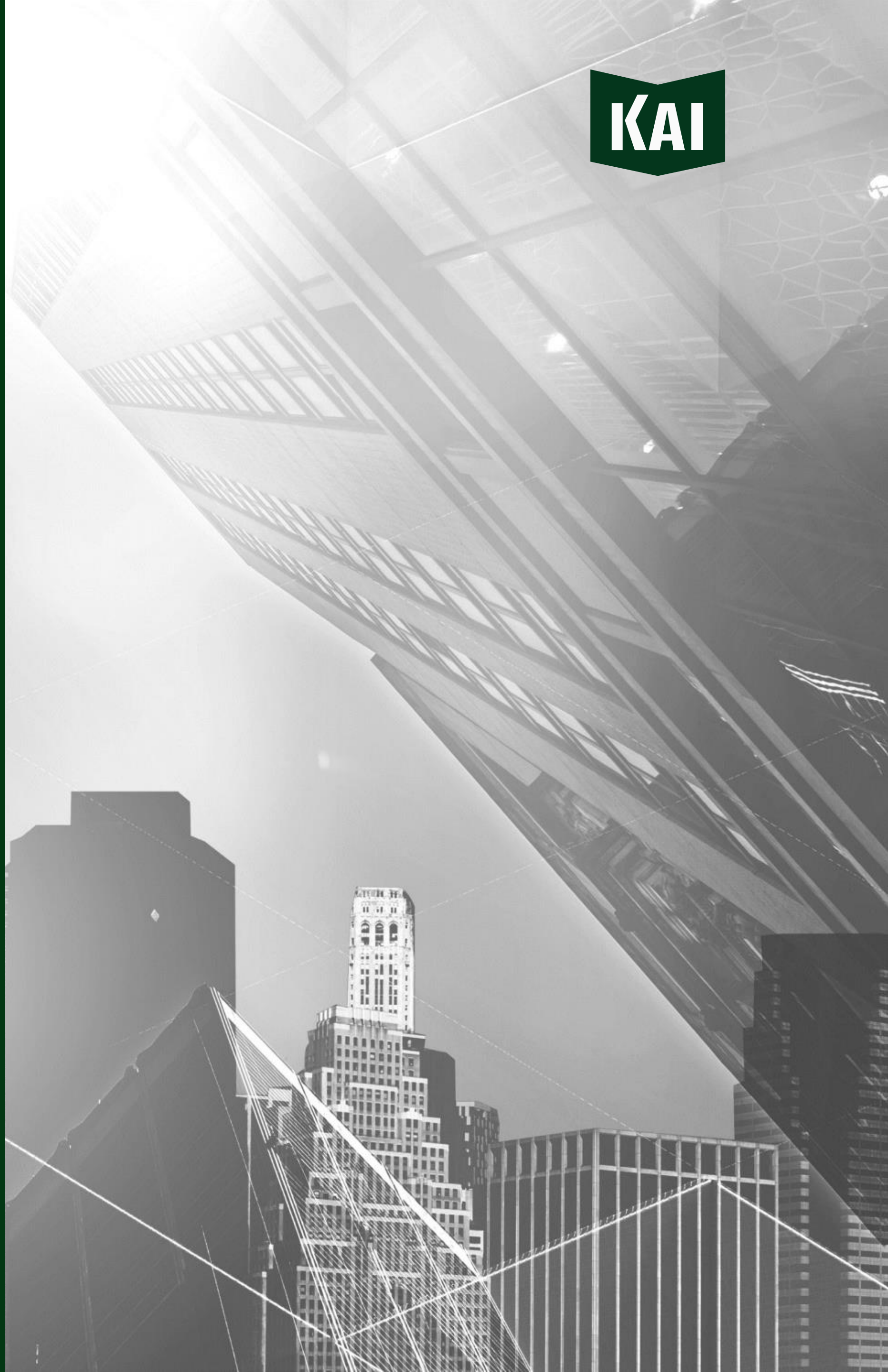
4.4. Other Accounting Policies

Topic	Details
Transition approaches	• Practical Application - Most life insurers companies in Korea have decided to choose either retrospective approach or fair value approach. (a) To adopt IFRS 17, an entity should build a system that separates direct and indirect costs to calculate ‘Best Estimate Liabilities’. Thus, entities in Korea concluded that it is practical to apply retrospective approach when they set a newly developed system for IFRS 17.The retrospective period is typically set between 1 and 5 years, the exact retrospective period for each case is determined via the board of directors. (b) Moreover, the concept of ‘fair value’ referenced in the ‘Fair value method’ is exactly same to the one defined in IFRS 13-‘Fair Value Measurement’. This is outlined in the regulatory guidance (incl. K-ICS) in Korea. For further information please see the materials related to the ‘Statutory Accounting Principle’ session.
Adjustment of assumptions for the FS disclosure	• Life insurers in Korea adjust economic assumptions quarterly. As for actuarial assumptions, we adjust them annually as of the end of December.

Appendix.

1) Presentation and Disclosures under IFRS 17
2) Historical Balance Sheet (Samsung Life Insurance)
3) Historical Income Statement (Samsung Life Insurance)



1) Presentation and Disclosures under IFRS 17

Key Highlights of Presentation and Disclosures

- **Statement of financial position:**
  - (a) Recognition of insurance contract liabilities on a present value
  - (b) Classification changes of financial assets
- **Statement of financial performance:** accrual basis accounting (allocate CSM and RA over the duration of the insurance contract)

Statement of financial position	
Asset	**Liabilities**
Cash and Cash Equiv.	LRC (BEL. RA. CSM)
FVPL	LIC (BEL, RA)
FVOCI	Other liabilities
Insurance contract assets	**Equity**
Other assets	Share capital, AOCI etc

Statement of financial performance
Insurance service result
Insurance revenue
(a) Claims incurred (expected)
(b) Other expense incurred (expected)
(c) RA release / CSM allocation
Insurance expense
(a) Claim incurred (actual)
(b) Other expense incurred (actual)
(c) Loss form onerous contract
Insurance finance income or expenses
Investment revenue
(a) Interest income from insurance assets
(b) Foreign exchange gain from insurance liabilities
Investment expense
(a) Interest expense from insurance liabilities
(b) Foreign exchange loss from insurance liabilities

Appendix

2) Historical Balance Sheet (Samsung Life Insurance)

(Unit: KRW bn)	2022A	2023A
Total Assets	**2,962,342**	**3,146,550**
Cash & Cash Equiv.	88,621	54,942
Financial asset	1,904,445	2,122,555
Loans and receivables	855,301	827,361
Derivative assets	9,805	10,619
Investment in associates	18,836	24,886
Finance lease assets	753	507
Investment property	58,120	65,494
PP&E, Intangible assets	10,556	10,095
Other assets	15,905	30,091

(Unit: KRW bn)	2022A	2023A
Total Liabilities	**2,546,722**	**2,703,176**
Insurance liabilities	1,804,219	1,907,819
Financial liabilities and Others	742,503	795,357
Total Equity	**415,620**	**443,374**
Share capital & Capital surplus	2,251	2,251
Capital adjustments	△21,170	△21,170
AOCI	246,545	263,515
Retained earnings	169,127	179,782
Non-controlling interests	18,867	18,996

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3) Historical Income Statement (Samsung Life Insurance)

(Unit: KRW bn)	2022A	2023A
Insurance service result	**16,678**	**14,482**
Premium income	77,832	85,365
Reinsurance income	1,073	1,356
Insurance claims paid	60,225	70,002
Reinsurance expenses	1,393	1,629
Other insurance operating expenses	609	608
Investment-related service income and expenses	**5,129**	**9,502**
Insurance finance income	54,211	14,519
Interest income	77,486	84,370
Financial asset income	89,184	85,562
Fee and commission expenses	18,498	19,519
Other income	25,586	18,679

(Unit: KRW bn)	2022A	2023A
Insurance finance expenses	79,490	106,335
Administrative expenses for assets	2,799	3,053
Interest expense	11,192	15,388
Financial asset expenses	140,858	63,863
Other expenses	25,497	24,508
Net operation profit	**21,807**	**23,984**
Non-operating profit	**4,290**	**2,106**
Non-operating loss	**1,692**	**500**
Profit before income tax	**24,405**	**25,590**
Income tax expense	**1,329**	**5,253**
Profit for the period	**23,076**	**20,337**
Shareholders of the parent entity	**21,702**	**18,953**

Thank you very much for listening!
Any Questions?

THANK YOU