ENGEN | Medical Benefit Fund

IFRS 17 ACCOUNTING STANDARD EXPLAINED

BACKGROUND

IFRS, or International Financial Reporting Standards, are a set of accounting rules for how information should be gathered and presented in financial reports. The Standards ensure that information is consistent, comparable, and credible worldwide, using a common accounting language. IFRS 17 aims to improve the consistent application of these principles, enabling users of financial statements to meaningfully compare financial results of insurers and specifically sets out the principles of recognition, measurement, presentation, and disclosure of insurance contracts.

IFRS 17 is mandatory for annual reporting periods beginning on or after 1 January 2023, with re-statement of comparatives for the previous reporting period (that is, from 1 January 2022 for calendar year-ends). Implementation is to be done as if IFRS 17 always existed, thus opening balances for 2023 and comparative 2022 needs to be recalculated and reported in the 2023 Annual Financial Statements (AFS).

IFRS 17 applies to all insurance contracts (in a medical scheme each active membership is a contract), and reinsurance contracts (risk transfer arrangements) issued.

IFRS 17 requires a scheme to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. This requirement aims to provide transparent reporting about a scheme's financial position and risk.

Under IFRS 17, Insurance Contracts are measured as the expected fulfilment cash flows – representing the present value of current estimates of amounts the scheme/insurer expects to collect from contributions/premiums net of pay out for claims, benefits and directly-attributable expenses, including an adjustment for the risk of those cash flows.

This means that under IFRS 17, no profits are recognised when the member joins/at policy inception (contract is taken out). Instead, the contractual service margin (CSM) sets out the expected future profits for the contract, which are released, recognised and reported over its lifetime.

IFRS 17 requires the Fund to disclose information in the Notes to the Annual Financial Statements at a level of detail that, together with the primary financial statements, give members a basis to assess the effects that insurance contracts have on the Fund's position, performance and cash flows.

IFRS 17 CHANGES THE DISCLOSURES IN THE ANNUAL FINANCIAL STATEMENTS

The implementation of IFRS 17 brings about changes to the Annual Financial Statements (AFS). The following outlines some of the changes and highlights the impacts to the AFS. Please note that a comprehensive note can be found in the full set of AFS that is available on the Fund's website.

A. MEDICAL SAVINGS ACCOUNT

From a reporting point of view, Medical Savings Accounts (MSA) form part of the insurance contracts as they cannot be held separately and are highly interrelated (the member is unable to benefit from the one component unless the other is present). Due to this, MSA is no longer separately reported on the Statement of Financial Position but included under the insurance contract liabilities.

B. CASH FLOWS

The cash flows to fulfil an insurance contract include contributions, claims, acquisition cash flows, membership administration and maintenance cost, recoveries from past claims and any other costs specifically chargeable to the member under the terms of the contract.

Cash flows that are not incurred to fulfil insurance contracts include investment returns, cash flows that arise from reinsurance contracts and cash flows not directly attributable to portfolio of insurance contracts.

C. REPORTING STRUCTURE

Schemes are required to make the following changes to their reporting structure:

- As a result of complying with IFRS 17, medical schemes are considered mutual entities. They are not for profit organisations, and the non-distributable reserves are kept for future claims.
- Under IFRS 17 losses on onerous contracts, where claims are higher than contributions, are immediately recognised in profits or losses. It's important to understand that onerous contracts are not necessarily unprofitable throughout their lifespan; most of them are expected to be profitable but may not fully cover the conservative risk adjustment at initial recognition.
- The cost of fulfilling an insurance contract includes certain directly attributable administration expenses. Other administration expenses are reported separately.
- The Liability for Incurred Claims (LIC), previously referred to as Incurred But Not Received claims (IBNR), now includes a risk adjustment for non-financial risk that is applied to the present value of the estimated future cash flows. It reflects the compensation the Fund requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Fund fulfils insurance contracts.
- Insurance receivables are reported with the Insurance Contract Liability to form one net Insurance Contract Liability.
- Accumulated Funds, now referred to as the Liability for Future Members are reported as part of the Fund's liabilities and not reserves.

D. TERMINOLOGY CHANGES

Old terminology	New terminology
Risk contribution income	Insurance revenue
Relevant healthcare expenditure	Insurance service expense
Incurred But Not Reported (IBNR) (claims) *Outstanding claims provision*	Liability for Incurred Claims (LIC)
Accumulated Funds	Insurance Liability for Future Members
Medical Savings Accounts liabilities	Insurance contract liability
Net healthcare result	Insurance service result

E. IMPACT

IFRS is a reporting standard and does not affect the actual business of the Fund. The value in the Fund stays largely the same after the implementation of the Standard.