

Insurance Contracts with Direct Participation Features

Introduction:

IFRS17 requires classification of an insurance contract as either with or without direct participation features as this determines whether a General Model Approach (GMM) needs to be adopted or a Variable Fee Approach (VFA).

These contracts are intended to provide an investment related service in addition to the core insurance service and often involve sharing of investments returns with the policyholders.

Identifying contracts with direct participation features:

Eligibility criteria for classifying an insurance contract with direct participation is:



1. Presence of a clearly identified pool of underlying items

2. Expectation to pay substantial share of fair value returns on underlying

3. Expectation to share variability in fair value returns with the policyholder



Note: This assessment is done at initial recognition only

Measurement:

Given that insurance contracts with direct participation features are primarily investment related service contracts, the Standard defines the obligation to policyholders and hence the Insurance contract Liability for these contracts as:



To gain more insights on insurance contracts with direct participation features under IFRS17 or for any other related discussions, please feel free to reach out to us at kap@ka-pandit.com



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