February 2016

Insurance Contracts
Project Overview

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

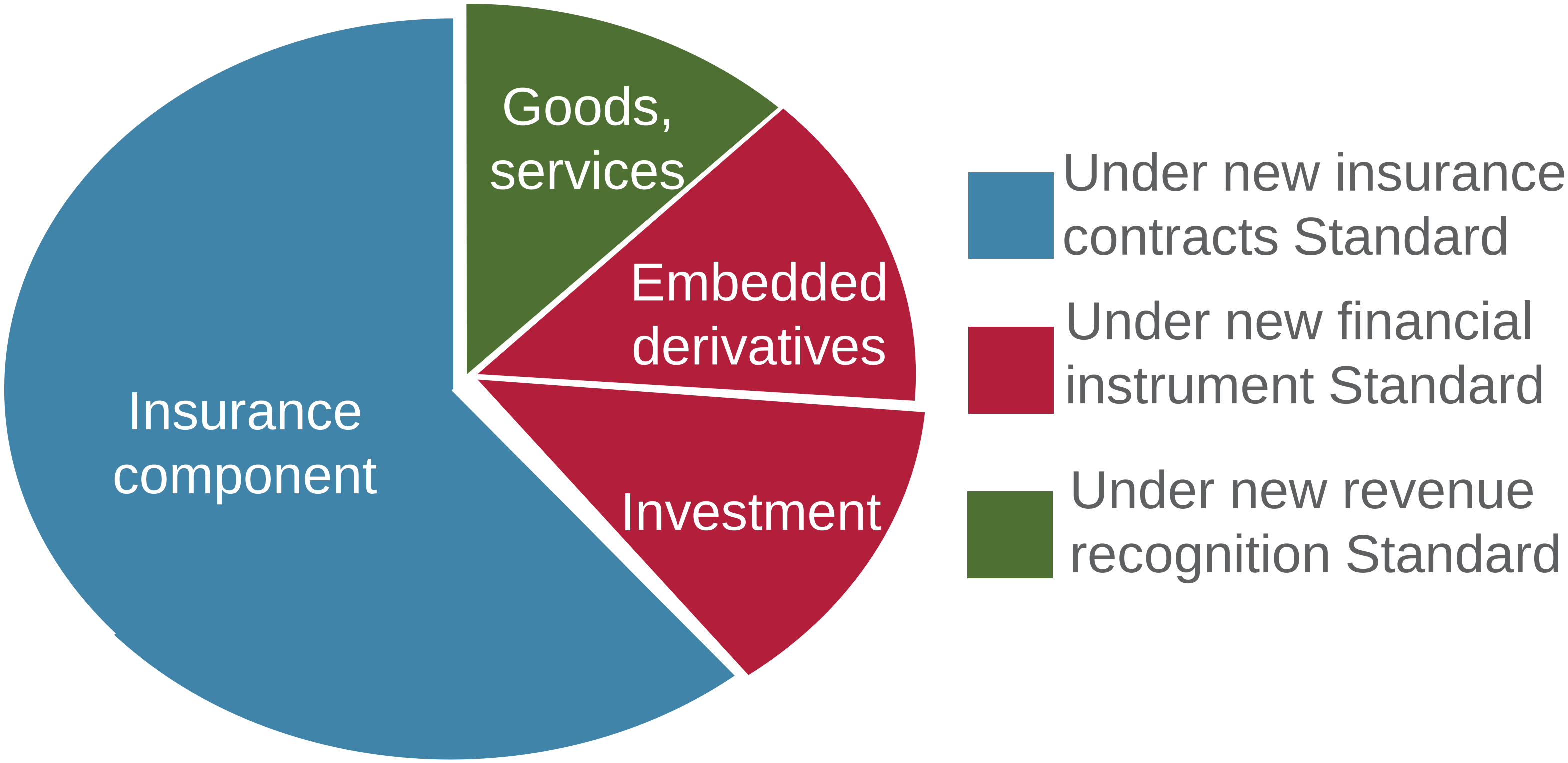
Project history

1997	**IASC starts project on insurance contracts**
March 2004	**IFRS 4 *Insurance Contracts* (Phase I)**
	Interim Standard on insurance contracts issued
Mid-2004	**‘Phase II’ Insurance Working Group formed**
May 2007	**Discussion Paper *Preliminary views***
	162 comment letters received & field work
July 2010	**Exposure Draft *Insurance Contracts***
	253 comment letters received & field work
June 2013	**Exposure Draft *Insurance Contracts***
	194 comment letters received & field work
2016	**Expected publication of IFRS X *Insurance Contracts***

Identify and recognise the contract

The defining feature of an insurance contract is the presence of significant insurance risk

Limited separation of components from an insurance contract



Recognition from the beginning of the coverage period, unless the contract is onerous or payments are due before

Measure contract at initial recognition

The measurement of an insurance contract incorporates all available information, in a way that is consistent with observable market information

Contractual service margin — Difference between the risk-adjusted present value of expected inflows and outflows at inception

‘Fulfilment cash flows’

- **Future cash flows** — Expected cash flows from premiums and claims and benefits
- **Risk adjustment** — Uncertainty assessment about the future cash flows and its costs
- **Discounting** — An adjustment that converts future cash flows into current amounts

Remeasure in subsequent periods

The Board believes that a current value measure of an insurance contract provides the most useful information about insurance contracts in the statement of financial position

Contractual service margin

‘Fulfilment cash flows’

Future cash flows

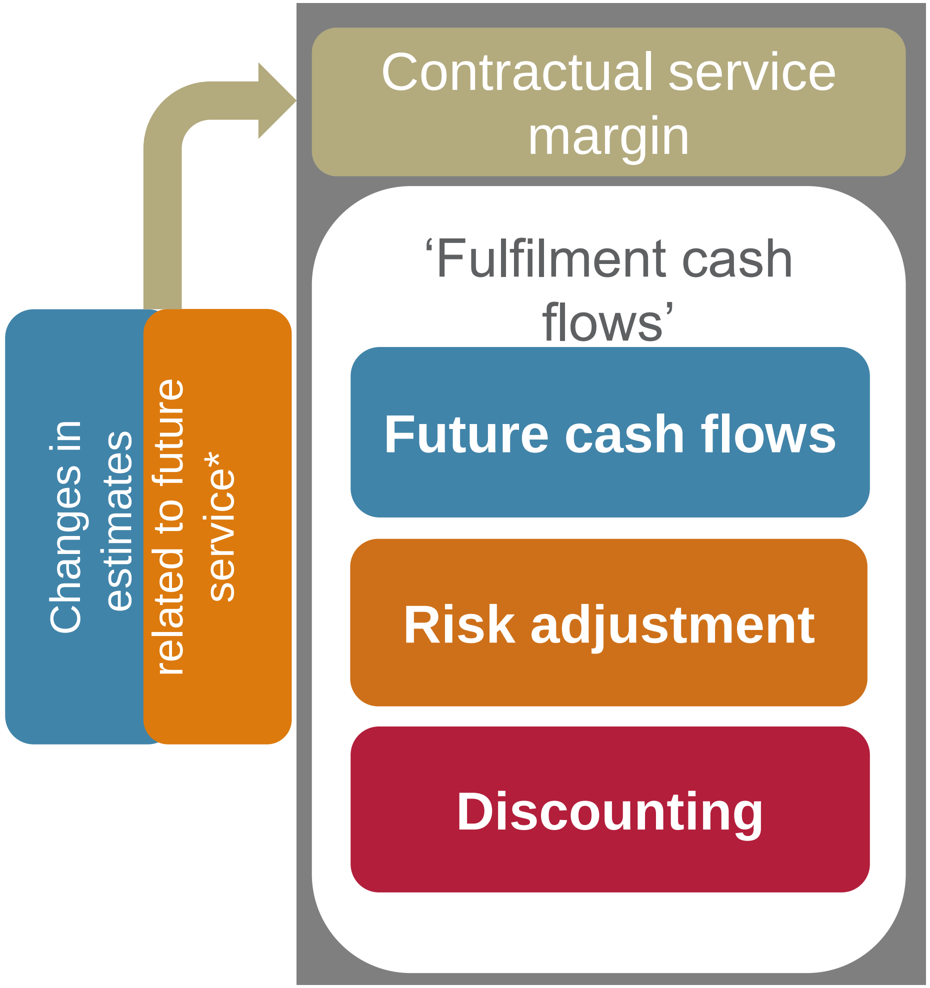
Risk adjustment

Discounting

- Adjusted by changes in estimates relating to the future
- Allocated to profit or loss on the basis of provision of insurance contracts (ie the passage of time)

In each reporting period, an entity remeasures the **fulfilment cash flows** using current assumptions

Remeasure in subsequent periods:
Recognition of changes in estimates



P&L: underwriting result

Release on provision of insurance coverage

Changes in cash flows related to past and current periods' services

Release based on the provision of the risk in the current period

P&L: investment result

Insurance investment expense at cost or current basis

Accounting policy choice: OCI

Differences between insurance investment expense determined at current and cost basis

*For some contracts, changes in the fee specified in the contracts adjusted against the contractual service margin

Present results in financial statements

The presentation will be consistent between insurers and entities that do not issue insurance contracts

Statement of comp. income

	20XX
Insurance contracts revenue	X
Claims and expenses	(X)
Operating result	X
Investment income	X
Insurance investment expense on insurance liability	(X)
Investment result	X
Profit or loss	X
Discount rate changes on insurance liability (optional)	(X)
Total comprehensive income	XX

Revenue and expense are recognised as earned or incurred

Insurance investment expense is current or 'cost view', depending on accounting policy

If insurance investment expense is 'cost view', difference between current and cost basis is presented in OCI

Present results in financial statements:

Insurance investment expense in profit or loss

Presenting insurance investment expense in profit or loss on a cost basis can reduce accounting mismatches between related assets measured on a cost basis

Different approaches for determining insurance investment expense on a cost basis in profit or loss

Effective yield approaches

- Different versions appropriate for different contracts
- Reflects cost measurement basis in P&L

Current period book yield approach

- Insurance investment expense in profit or loss eliminates accounting mismatch with items held in profit or loss
- Only for specified contracts (ie with no economic mismatches)

OCI: differences between current and cost measurement basis

Disclosures

The Board proposes to extend the existing disclosures in IFRS 4 relating to the risks and amounts reported in the financial statements

Amounts

- ✓ Expected PV of future payments-receipts
- ✓ Risk and the contractual service margin
- ✓ New contracts written in the period
- ✓ Time value of money (insurance investment expense)

Judgements

- ✓ Estimating inputs and methods
- ✓ Effects of changes in the methods and inputs used
- ✓ Reason for change, identifying the type of contracts affected

Risk

- ✓ Nature and extent of risks arising
- ✓ Extent of mitigation of risks arises from reinsurance and participation
- ✓ Quantitative data about exposure to credit, market and liquidity risk

Responding to feedback received

Main concerns	The Board's response
Changes in the current value measurement recognised immediately in profit or loss does not reflect performance appropriately	• Changes recognised in future periods if related to future underwriting service ('unlocking') • Optional presentation of changes in market variables in OCI
Profit recognition for contracts with participating features does not reflect performance appropriately	For some contracts with participating features, the effect of some market variables should be regarded as a variable fee for service
Complexity of proposals as a whole	Reduced complexity through simplifications, for example: • measurement for simple contracts • transition requirements

IFRS

Next steps towards publishing new insurance contracts Standard

Now

- Drafting process, including if any sweep issues arise
- Effective date decided when publication date more certain

At the end of 2016

- Publication of Standard

Earliest 2020?

- Possible effective date of the Standard

IASB proposes amendments to the current Insurance Contracts Standard to provide temporary reliefs for insurers

09 December 2015

The International Accounting Standards Board (the Board) has today published for public comment proposals to amend the existing insurance contracts Standard, IFRS 4. This is to address the temporary consequences of the different effective dates of IFRS 9 *Financial Instruments* and the new insurance contracts Standard.

Both IFRS 9 (which was issued in July 2014 and has an effective date of 1 January 2018) and the new Insurance Contracts Standard (which will replace IFRS 4 and have a later effective date) are relevant to companies that issue insurance contracts. Some of those companies have expressed concerns about the need to implement two significant changes in accounting on different dates. They have also highlighted that potential increased accounting volatility could arise in profit or loss if the new requirements for financial instruments were to be applied before the new requirements for insurance contracts.

In order to balance meeting the needs of those stakeholders with the needs of users of financial statements, the Board has proposed the following amendments to IFRS 4. These proposals supplement existing options within IFRS 4 that could be used to address any accounting volatility that may arise:

- the overlay approach: an option for a company that issues insurance contracts to remove from profit or loss the incremental volatility in profit or loss caused by changes in the measurement of financial assets upon application of IFRS 9. This approach would be in place until the new Insurance Contracts Standard comes into force; and
- the deferral approach: an optional temporary exemption from applying IFRS 9 that would be available to companies whose predominant activity is to issue insurance contracts. Such a deferral would be available until the new Insurance Contracts Standard comes into effect (but it could not be used after 1 January 2021).