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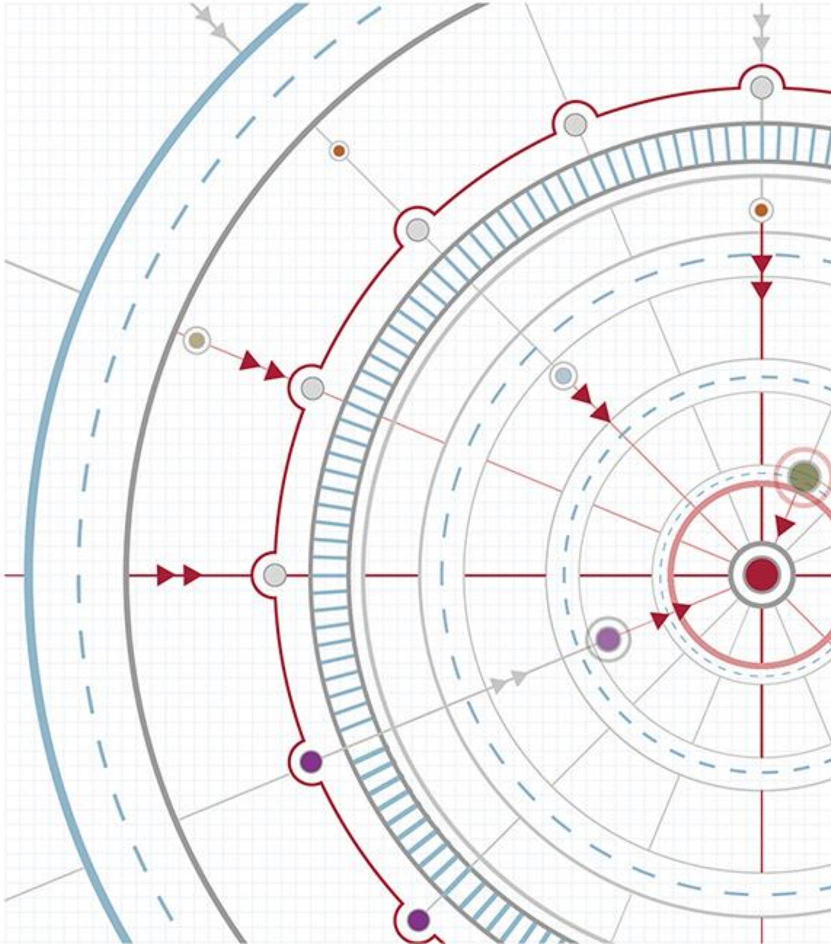

Insurance Contracts Project Overview

November 2016

The views expressed in this presentation are those of the presenter,
not necessarily those of the International Accounting Standards Board (the Board)
or IFRS Foundation.

Why change the accounting?

1—TO IMPROVE COMPARABILITY

Today wide variety of practices to account for insurance contracts

Issues today	Solution / Benefits
Lack of comparability between insurers • IFRS companies account for insurance contracts using different practices (eg US GAAP, UK GAAP) **Non-uniform reporting of products within groups** • Insurance contracts of subsidiaries are consolidated using different practices	• A new framework will replace wide range of different accounting practices that depend on type of contract and type of company that issues the contracts
Inconsistency with other industries • Revenue include deposits • Revenue reported on a cash basis	• Revenue will reflect the services provided, and exclude deposits, like any other industry

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Why change the accounting?

2—TO IMPROVE QUALITY OF INFORMATION

Today lack of relevant and transparent information

Issues today	Solution / Benefits
Lack of useful information about insurance contracts • Use of old or outdated assumptions • Options and guarantees not fully reflected in measurement of liabilities • Use of 'expected return on assets held' as discount rate	• Insurance contracts will be measured using current assumptions and will reflect options and guarantees • Discount rate will reflect characteristics of the fulfilment cash flows of the insurance contracts - risks not matched by assets will be reflected in the accounts
Lack of transparency about profitability • Profits recognised on a cash basis rather than when insurance coverage is provided • Use of many non-GAAP measures	• The unearned profit arising from the contracts will be recognised as the insurance coverage is provided, providing additional metrics to evaluate performance

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Where we are

In June 2013 **revised Exposure Draft** (2013 ED) published; **194 comment letters** received

In January 2014 **re-deliberations** begin

Re-deliberations complete in February 2016

Effective date and sweep issues discussed in November 2016

Expected publication of **new insurance contracts Standard**

Replaces IFRS 4

Effective date

2021

Q2 2013

Q1 2014

Q1 2016

Q4 2016

H1 2017


June 2013

Exposure Draft ED/2013/7

Insurance Contracts

Comments to be received by 25 October 2013

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Field work

June–October 2013 / August–October 2016

Drafting

The new approach

- All insurance contracts measured as the sum of:
  - **Fulfilment cash flows**
    - The present value of probability-weighted expected cash flows
    - Plus an explicit risk adjustment for insurance risk
  - **Contractual service margin**
    - The unearned profit from the contract

Key effects

⇨ A new framework will replace a wide range of different accounting treatments

⇨ Improved comparability between (i) insurers and (ii) contracts issued in different jurisdictions

Dealing with changes

- Changes in estimates of future cash flows
  - If related to past coverage → P/L
  - If related to future coverage → adjust unearned profit
- Changes in financial market assumptions (eg interest rates)
  - Accounting policy choice for presentation of insurance finance expense: (i) in P/L or (ii) disaggregated in P/L and OCI

Key effects

⇨ Changes in estimates and market prices will be reflected on a timely basis (including effects of options and guarantees)

⇨ Discount rates will reflect characteristics of insurance contracts—risks not matched by assets will be visible

Level of aggregation affects the recognition of profit

At inception

Portfolios of contracts

1 Onerous contracts	A loss is recognised in P/L	
2 Non-onerous contracts	Group with contracts that have no significant risk of becoming onerous	Annual cohorts would ensure **release of CSM** based on coverage units, reflecting the duration and size of the contracts in each group
	Group with other profitable contracts	

A **portfolio** is a group of contracts:
1) subject to similar risks (eg contracts within each product line, such as annuities and whole-life); and
2) managed together as a single pool.

- More than 2 groups are possible
- Split would provide information about the resilience of the contracts in the group to becoming onerous

Unearned profit (CSM) is recognised as liability and is released as insurance services are provided

Risk assessment
- based on sensitivity of the fulfilment cash flows to changes in estimates
- consistent with internal reporting

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Premium-allocation approach

- Optional for the measurement of contracts for which:
  - no significant expected changes in estimates before the claims are incurred, or
  - coverage period less than a year
- Similar outcome of the general model, but no separate identification of unearned profit
- Discounting of liability for incurred claims not required if expected to be settled within 12 months

Key effects

⇨ Reduce implementation costs of IFRS 17 for simpler contracts (eg short-term non-life insurance contracts)

Variable fee approach

- Only for contracts with direct participation features
  - Policyholder participates in share of clearly identified pool of underlying assets
  - Company expects to pay policyholder a substantial share of the return from those underlying assets
  - Cash flows expect to vary substantially with underlying assets
- Measurement of obligation reflects change in fair value of all underlying items
- Fulfilment cash flow is calculated consistently with the general model

Variable fee approach vs general model

- Difference with general model: changes in the estimate of fee company expects to earn are adjusted in CSM
  - Fee is equal to company's expected share of returns on underlying items, less
  - Any expected cash flows that do not vary with the underlying items

Subsequent measurement of the CSM		
	General model	**Variable fee approach**
Changes due to market variables	In P/L or OCI	In CSM (1)
Accretion of interest expense on the CSM	Explicitly using rates at inception	Included in remeasurement

(1) If risk mitigated with derivatives, option to recognise changes in financial risks reflected in insurance contracts in P/L

Reporting performance

IFRS 4*	New IFRS Standard	Key changes
Premiums	Insurance contract revenue	- Insurance contract revenue excludes deposits - Revenue and expense are recognised as earned or incurred - Insurance finance expense is excluded from insurance service result and is presented (i) fully in P/L or (ii) in P/L and OCI, depending on accounting policy - Written premiums disclosed in the notes
Investment income	Incurred claims and expenses	
Incurred claims and expenses	**Insurance service result**	
Change in insurance contract liabilities	Investment income	
Profit or loss	Insurance finance expense	
	Net financial result	
	Profit or loss	
	Discount rate changes on insurance liability *(optional)*	
	Total comprehensive income	

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

Disclosures

Amounts	Judgements	Risk
• Expected PV of future payments-receipts • Risk and the contractual service margin • New contracts written in the period • Time value of money (insurance finance expense)	• Estimating inputs and methods • Effects of changes in the methods and inputs used • Reason for change, identifying the type of contracts affected	• 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

Compared to IFRS 4, additional disclosures relating to the risks and amounts reported in the financial statements

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Applying the new Standard for the first time

DECIDE TRANSITION METHOD BY GROUP OF CONTRACT

Full retrospective approach (apply IAS 8)

if impracticable

Modified retrospective approach

- Modifications available if necessary given reasonable and supportable information
- Maximise the use of the information needed for full retrospective approach

if impracticable

OR

Fair value approach

- Separate disclosures for each transition method
- Opportunity to reassess the classifications for financial assets under IFRS 9

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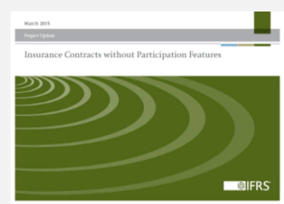
  - go.ifrs.org/insurance_contracts
- Sign up for our email alert

Ask questions or share your views

- Email us:
  insurancecontracts@ifrs.org

Web resources

- Series of webinars April-May 2016
- IASB® *Update*
- Investor resources
- Feedback Statement
- Due process summary
- High-level summary of the project
- Project Update about contracts without participation features



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