International Financial Reporting Standards

Insurance Contracts Standard

Applying the standard for the first time

Darrel Scott

IASB member

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

IFRS™

Topics

1. The need for change and the history of the project
2. What is an insurance contract
3. Initial measurement of insurance contracts
4. Subsequent measurement of insurance contracts
5. Modifications to General model: variable fee contracts
6. Other modifications to the General model
7. Presentation and disclosure
8. Applying the standard for the first time

Assess options permitted by the Standard

- Scope options to apply insurance contracts Standard to:
  - Fixed fee service contracts
  - Financial guarantee contracts

Assess options permitted by the Standard

- Scope options
- Option to apply premium allocation approach (PAA), within PAA:
  - Option to expense acquisition costs if coverage period one year or less
  - Option not to accrete interest if coverage period one year or less
  - Option not to discount future cash flows expected to be paid in one year or less

IFRS™

Assess options permitted by the Standard

- Scope options
- Option to apply premium allocation approach (PAA)
- Variable fee approach not optional (VFA), but within VFA:
    - Constrained option to recognise effect of changes in the value of guarantees in profit or loss if entity uses derivatives to mitigate financial market risk in those guarantees
    - Option to eliminate mismatch by measuring some assets at FVPL

Assess options permitted by the Standard

- Scope options
- Option to apply premium allocation approach
- Options within variable fee approach
- Presentation: option to present effect of changes in discount rate in profit or loss or OCI

Applying the new Standard for the first time

When an entity applies the Standard for the first time, it may have in-force contracts that were written many years ago. Historical data about those contracts:

- May require use of hindsight
- May not be available

✓

- The entity can measure the fulfilment cash flows directly

✗

- Historical data needed to:
  - Measure remaining balance of contractual service margin
  - Measure liability for remaining coverage for revenue
  - For general model. determine the discount rate at date of initial recognition for OCI, interest accretion and unlocking

Applying the new Standard for the first time – estimating CSM

The IASB has specified different approaches for estimating the contractual service margin in a way that balances comparability with the costs of obtaining historical information.

Retrospective application

When historical data is available and does not require use of hindsight

Prescribed simplified approach

When some historical data is not available, but historical information about cash flows is available or can be constructed

Liability calibrated to fair value

When historical information about cash flows is not available

IFRS™

Estimating CSM – prescribed simplified approach

General model

- Estimate CSM at initial recognition using fulfilment cash flows at beginning of earliest period presented adjusted to reflect cash flows that already occurred
- Adjust CSM at initial recognition for allocation in proportion to contract duration
- Approximate discount rates at initial recognition

Variable fee approach

- Estimate CSM at initial recognition using the fair value of underlying items at date of initial application adjusted to reflect cash flows that already occurred
- Adjust CSM at initial recognition for allocation in proportion to contract duration

IFRS™

Transition reliefs

- Opportunity to fully evaluate accounting for insurance contracts by permitting reassessment of classifications for financial assets under IFRS 9 based on facts and circumstances that exist at the date of initial application
- Includes use of options available on first application of IFRS 9

Disclosures

- Information about the earliest date of initial recognition of the portfolios that are measured retrospectively
- Amounts in the financial statements determined at transition using simplified approach or fair value approach, both on transition and in subsequent periods.
- If using the simplified approach that results in accumulated OCI for insurance contract being zero, disclose information of accumulated OCI for related financial assets measured at FVOCI in accordance with IFRS 9.

Thank You

IFRS™