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International Accounting Standards Board

INFORMATION FOR OBSERVERS

IASB Meeting:	**Insurance Working Group, November 2008**
Paper:	**Insurance contracts: Candidate measurement approaches - comments from October 2008 educational session (Agenda paper 4E)**

Purpose of this paper

1. During an educational session at its October 2008 meeting, the Board discussed the candidate measurement approaches for insurance contracts[1]. This paper lists the main comments by Board members.

Responses and questions

2. We wish to bring the following points to the attention of the Working Group members:

   (a) How would the candidates reconcile with the preliminary views of the Board in the revenue recognition project? More specifically, how would or could the customer consideration model work for insurance contracts?

   (b) The candidates based on a fulfilment notion do not seem to be consistent with the Board's current thinking in its Liabilities project.

[1] The agenda papers 4A-4D for this Working Group meeting have the same content as the papers on the candidate measurment approaches discussed by the Board in its October 2008 meeting.

(c) A number of Board members want to explore the difference between the various candidates in more detail, for example:

(i) the differences between the candidate based on transfer and the fulfilment candidates. How much would they really differ in practice?

(ii) the differences between the various fulfilment candidates, particularly with respect to the impact of margins.

(d) On expenses:

(i) What expenses would be included in the fulfilment-based approaches. How could the insurer reliably determine these expenses? [staff notes that estimating the expenses for a transfer-based may also come with challenges; some, perhaps many, of those challenges may be similar to the challenges an insurer would face when estimating expenses under a fulfilment notion.]

(ii) What expenses would be included in the transfer-based approach? How would an insurer estimate whether it is more or less efficient than others?

(e) On margins:

(i) In a fulfilment model (candidates 2 and 3), what does the cost of bearing risk mean? Would there be a difference between the cost of bearing risk and the required (profit) margin for bearing risk? How would an insurer estimate the cost of bearing risk?

(ii) Could diversification give rise to any differences between the margin for transfer-based notion and for a fulfilment-based notion?

(f) The arguments for a fulfilment-based approach need to refer more often to the conceptual framework, rather than just referring to the arguments brought forward by respondents.

(g) Is there any link between (i) the selection of the measurement approach and (ii) the decision whether to present premiums as revenue or deposits?

(h) Why do fulfilment-based models use a risk free rate discount rate rather than one that reflects the credit risk of the insurance liability, especially for those insurance contracts that have a lot of similarities with financial instruments?