



Insurance Contracts

Joint FASB-IASB meeting, December 16
Handout to accompany Agenda paper 7

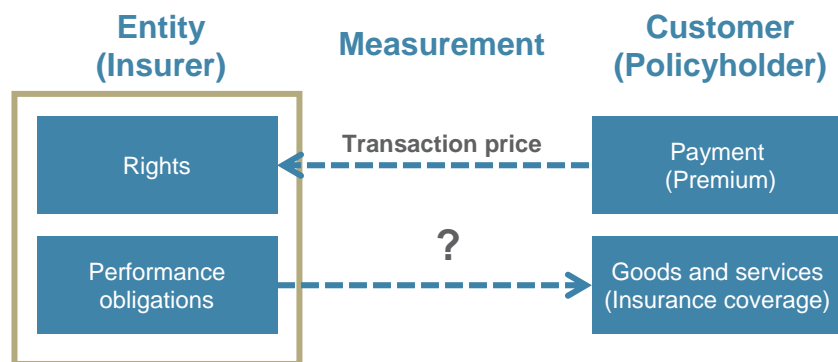
The views expressed in this presentation are those of the presenter,
not necessarily those of the IASC Foundation, the IASB or the FASB

© 2009 IASC Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org



Insurance Contracts- Contracts with Customers

2

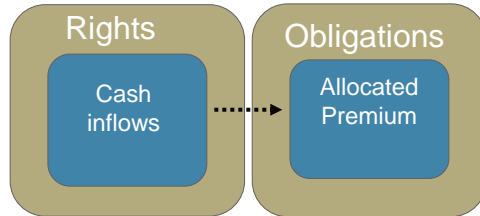


© 2008 IASC Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org



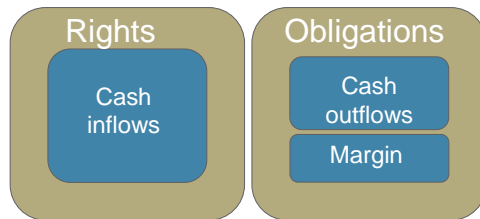
Insurance Contracts- Measurement of the obligations

Contract



Allocation of the original transaction price:

- Report about performance under the contract
- Remeasure obligation only if onerous



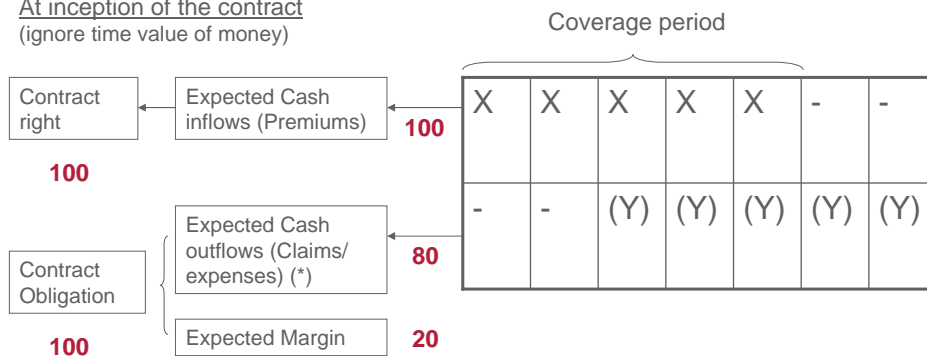
Explicit building blocks:

- Report about performance under the contract
- Remeasure obligation each reporting date (=reporting about changes in circumstances)



Insurance Contracts- Explicit building blocks (1/2)

At inception of the contract
(ignore time value of money)



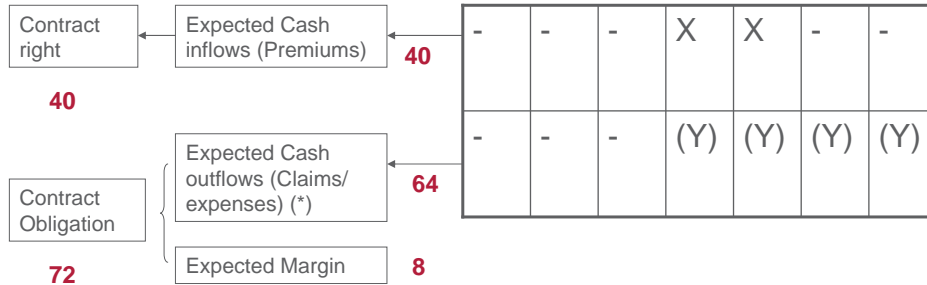
(*) No coverage has been provided at inception, so no claims and expenses have been incurred yet. All claims and benefits included in the measurement relate to the obligation to provide coverage in future periods (standing ready).



Insurance Contracts- Explicit building blocks (2/2)

At a subsequent reporting date
(ignore time value of money)

Coverage period
(remaining)

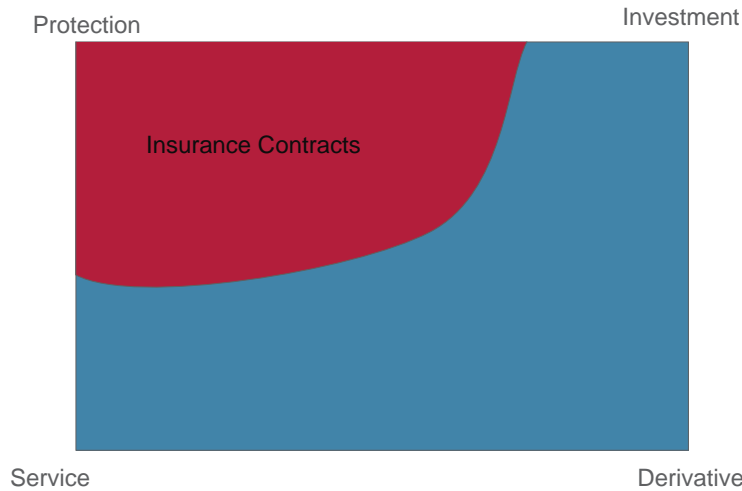


(*) At subsequent measurement date, cash flows relate to:

- Claims and expenses to be incurred from remaining coverage (standing ready)
- Incurred claims and expenses not yet paid (claims handling)

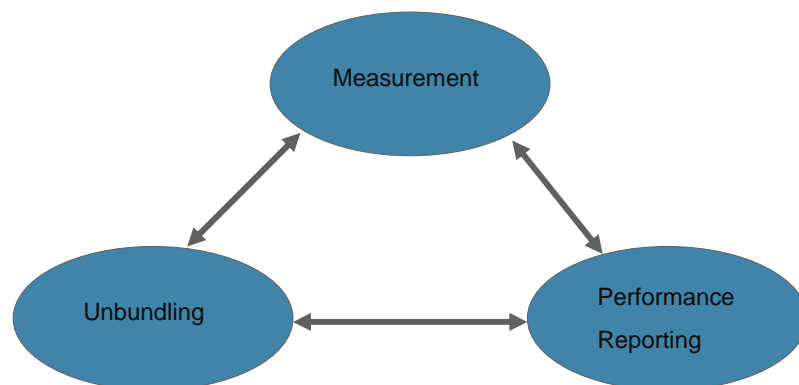


Insurance Contracts



Insurance Contracts

7



© 2008 IASC Foundation, 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org



Applying the revenue recognition model to insurance contracts: an example

8

Fact pattern: annuity

1. 4 policyholders
2. Single premium 250, 1 Jan X1
3. Annuity benefit 100 every 1 Jan, starting X1
4. Expected deaths: 1 each year for 4 years
5. No lapse, no acquisition costs, no running costs, no margin
6. Discount rate 0%, no investment income



Base case: actual = expected

9

	X1	X2	X3	X4
Revenue	400	300	200	100
Policyholder benefits	400	300	200	100
Profit	0	0	0	0



Summary of performance obligations

10

Policyholder	X1	X2	X3	X4
A	50	50	50	100
B	50	50	150	
C	50	200		
D	250			
Total	400	300	200	100



Case 2: Policyholders survive longer

11

	X1	X2	X3	X4
Revenue	400	150	350	100
Policyholder benefits	400	300	300	100
Profit	0	(150)	50	0



Case 3: Policyholders survive even longer

12

	X1	X2	X3	X4
Revenue	400	150	250	200
Policyholder benefits	400	300	300	200
Onerous test		50	(50)	
Profit	0	(200)	0	0



Case 4: Policyholders die earlier

13

	X1	X2	X3	X4
Revenue	400	450	150	0
Policyholder benefits	400	300	100	0
Profit	0	150	50	0



Final thoughts

14

1. Pooling
2. Only one moving part in this example
3. Tracking

