International Financial Reporting Standards

Exposure Draft
Insurance Contracts
The definition of 'insurance'

Global Preparers' Forum, November 2010
Agenda paper 8

The views expressed in this presentation are those of the presenter,
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What is ‘insurance’ in a contract?

Definition of an insurance contract

A contract under which:

one party (the insurer) accepts

significant insurance risk (other than financial risk)

from another party (the policyholder)

by agreeing to compensate the policyholder

if a specified uncertain future event (the insured event)

adversely affects the policyholder.

Scope of the project

- Accounting for insurance contracts
  - The contract
    - Combination of rights and obligations
    - Presented on a net basis
  - One model for all insurance types
  - Not about the insurer’s other assets or liabilities
  - For the time being: not policyholder accounting
  - Investment contracts with discretionary participating feature

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Scope of the project continued

- Within the scope:

  Financial guarantee contracts
  Coverage against credit defaults

  – Requires the issuer to make specified payments to reimburse the holder for a loss it incurs

  – because a specified debtor fails to make payment when due.

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Scope of the project continued

- Scoped in:

  Investment contracts (financial instruments)
  with discretionary participating feature

  – Discretionary participating feature is defined as:
  Contractual right that gives rise to discretionary payments that are based on:

    – the performance of a specified pool or type of insurance contracts

    – realised and/or unrealised investment returns

    – profit or loss

  – Provided that there also exist insurance contracts that provide similar contractual rights

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Scope of the project continued

- Scoped out:
  - product warranties issued by a manufacturer, dealer or retailer
  - Employers' assets and liabilities under IAS 19 or IAS 26
  - Contractual rights or obligations that are contingent on the future use of a non-financial item
  - Residual value guarantees by manufacturers, dealers or retailers or as part of a finance lease
  - Fixed-fee service contracts
  - Contingent consideration payable or receivable in a business combination as described in IFRS 3

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Measurement model

- Current measurement of an insurance contract
  - remeasured each reporting period
  - not locked-in
  - not updated for own credit risk
- Reflect insurer's perspective of the contract
- Building block approach
  - Four (or three) building blocks
- No deposit floor

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Inputs and changes in estimates

- Inputs
  - Financial market variables: consistent with observable market prices
  - Other variables: use all available information
  - unbiased
- Changes in insurance liabilities
  - profit or loss

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Measurement model continued

- Building blocks
  - Expected (probability-weighted) future incremental cash flows (that arise from the contract)
  - Time value of money
  - Risk adjustment

Cash flows	Discounting	Risk adjustment	Margin

- No day one gains: residual margin
- Day one losses recognised in profit or loss

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What are the next steps?

- ED published: 30th July 2010
- FASB issued a Discussion Paper: 17th September 2010
- Outreach: Working Group, field tests, roundtables
- Comment period ends: 30th November 2010
- Final standard by mid-2011

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How can you get involved?

Staying up to date

- www.ifrs.org
- go.ifrs.org/ insurance_contracts
- IASB Update
- Board meeting webcasts
- Project webcasts and podcasts

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Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

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