Staff Paper

Project	Insurance contracts
Topic	Definition of an insurance contract

What is this paper about?

1. This paper discusses the definition of an insurance contract.

Staff recommendation

2. Some staff recommend that the boards withdraw the proposal in the ED/DP to amend the IFRS 4 guidance on the definition of an insurance contract to require that: :

   (a) an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant (paragraph B26 of the ED).

   (b) a contract does not transfer significant insurance risk if there is no scenario that has commercial substance in which the insurer can suffer a loss, with loss defined as an excess of the present value of net cash outflows over the present value of the premiums (paragraph B25 of the ED).

   Other staff recommend that the boards retain those requirements.

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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Background

3. The ED/DP defines an insurance contract as 'a contract under which one party accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder'. Insurance risk is defined as any risk other than financial risk, and financial risk is defined as 'the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract'. (The definition of financial risk is based on the definition of a derivative in IAS 39/IFRS9.)

4. The proposed definition of an insurance contract in the ED/DP is the same as the existing definition in IFRS 4 *Insurance Contracts*. However, the boards proposed two changes in the application guidance supporting that definition to reflect the boards' understanding of existing US GAAP and practice, as follows:

   (a) The ED/DP introduced a proposal that an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant (paragraph B26 of the ED).

   (b) The ED/DP proposed an additional requirement that a contract does not transfer significant insurance risk if there is no scenario that has commercial substance in which the insurer can suffer a loss, with loss defined as an excess of the present value of net cash outflows over the present value of the premiums (paragraph B25 of the ED).

5. In developing the ED, the IASB also considered whether to replace the term 'compensation' that describes the insurance contract benefit with the term 'indemnification' as used in US GAAP. However, in the IASB's view, these terms have broadly the same meaning. The FASB DP stated that the definition of an insurance contract should use the term 'compensation' rather than 'indemnification'

because it is a broader notion that would be less likely to limit the claim payment to a loss.

Comments from respondents

6. Question 11 of the ED asked respondents the following:

> Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

7. Question 1 of the DP asked respondents the following:

> Are the proposed definitions of *insurance contract* and *insurance risk* (including the related guidance) understandable and operational?

8. Question 4 of the DP asked respondents the following:

> Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

9. Almost all of the approximately 60% of respondents to the FASB's DP who commented on the definition of an insurance contract supported the proposed definition.

10. Fewer than 30% of respondents to the IASB ED commented on the definition of an insurance contract. Most of those commenting disagreed with the decision to modify the guidance in IFRS 4 relating to the definition of an insurance contract. They argue that the guidance in IFRS 4 worked well, is well understood and has not generated any problems in practice. While most do not raise specific issues on the proposed changes, they also argue that there is little merit in making minor changes to the definition for those applying IFRSs, particularly since the application of IFRS 4 has been consistent with the proposed changes.

11. Some believe that any change to the definition from IFRS 4 would require them to reassess whether all their existing contracts meet the new definition and are

concerned that such an exercise would impose costs similar to those they incurred on adopting IFRS 4. Furthermore, some state that the changes to the definition may result in fewer contracts meeting the definition than before, with a particular concern that some reinsurance contracts might be excluded from the scope as a result of the change (see paragraph 13(b)). They note that specific transitional arrangements or grandfathering of existing treatment would be required for any cases in which an insurance contract (under IFRS 4) no longer meets the definition of an insurance contract as proposed. However, very few specific cases were identified in the comment letters (an example is a contract in which the only insurance-type benefit is a return of premium guarantee).

12. Some consider the changes to be of an explanatory nature, clarifying further the classification principles that already exist in IFRS 4. These respondents believe that the application of IFRS 4 has been consistent with these two additional clarifications and believe that specifically including these criteria in the standard would be useful. A few respondents commented that practitioners struggle with the definitions of significant insurance risk and related loss measurements, especially in the context of portfolios of insurance.

13. Comments on the specific matters discussed in paragraph BC191 of the Basis for Conclusions to the ED are as follows:

    (a) The new requirement to consider the time value of money in defining an insurance contract was widely accepted. Some respondents believe this was already required whereas other respondents believe this is an additional test that is acceptable and appropriate because they believe an insurer should consider the time value of money in assessing whether additional benefits are significant.

    (b) Some (including preparer groups, actuaries, accountants and standard setters from a variety of geographical regions) are concerned about the effects on reinsurance contracts of the additional guidance in paragraph B25 of the ED on the need for the possibility of a loss over the whole life of the contract.

They note that when individual insurance contracts are combined as a group of contracts and reinsured, the aggregated risk of loss may be significantly less than in the underlying insurance contracts that are being reinsured. Accordingly, they are concerned that it is often difficult or impossible to demonstrate a possibility of a significant loss on the reinsurance contract covering the group of contracts as a whole. If the boards retain the additional guidance in B25, those respondents propose that the boards should ensure that such reinsurance contracts remain in the scope of the insurance contracts standard by also including the following guidance for reinsurance contracts, taken from US GAAP:

(i) that risk transfer is deemed to be significant if the reinsurance contract transfers substantially all of the risk in the underlying insurance contracts; and

(ii) that detailed testing is not required if risk transfer is reasonably self-evident.

This would enable reinsurers to account for aggregated contracts as insurance. Furthermore, time and cost would be saved by not focussing on contracts that clearly do transfer risk.

(c) Most respondents accepted the retention of the word 'compensation' instead of 'indemnification' in describing an insurance contract benefit. However, three[1] respondents disagree that the terms are the same, arguing that 'compensate' is appropriate only when it is impossible to put the beneficiary in the same position as before the loss, and 'indemnify' is appropriate only when the policyholder is put in as nearly as possible in the same position prior to the loss. This argument was specifically considered by the boards in developing the ED. Accordingly, we do not consider this issue further.

(d) A few respondents commented that the proposed definition of insurance risk within the insurance contract definition is too broad and not clearly defined. Insurance risk is defined as risk, other than financial risk, transferred from

[1] Two commented on both the IASB ED and the FASB DP and one commented only on the FASB DP.

the holder of a contract to the issuer (see paragraph 3 above for the detailed definition of financial risk). A respondent recommended that the boards include the existing FASB Topic 944 definition in the standard, which defines insurance risk as the risk arising from uncertainties about both underwriting risk and timing risk. Actual or imputed investment returns are not an element of insurance risk. Insurance risk is fortuitous; the possibility of adverse events occurring is outside the control of the insured.

Other matters

14. We will consider in a future paper or in drafting the following additional points raised in the comment letters:

    (a) Paragraph B28 that states, for the purpose of assessing risk transfer, 'contracts entered into simultaneously with a single counterparty, or contracts that are otherwise interdependent, form a single contract'. Some question whether that requirement is intended to cover fronting, retrocession and reinsurance programs. (Fronting refers to procedures under which the cedant cedes the risk it has underwritten to its reinsurer, with the cedant retaining none or a very small portion of that risk for its own account. However, the cedant retains primary liability. Retrocession refers to reinsurance bought by a reinsurer.) In the staff's view this requirement was not intended to address fronting, retrocession and reinsurance and we will clarify this point in drafting. In preparing the drafting, we will consider material on combining contracts being developed in the project on revenue recognition.

    (b) Some question whether Takaful arrangements (an alternative form of protection that is designed to be compliant with Shariah law) meet the definition of insurance contracts. We have yet to consider how to address Takaful issues.

    (c) Some respondents question the definition of 'contract', including whether a contract includes arrangements that arise under law rather than contract,

and suggest that the boards consider the guidance on contracts in their project on revenue recognition. In the staff's view, a contract includes all the contractual terms and conditions, whether specified in the contract or in the context of contract law. We propose to monitor the outcome of the revenue recognition project and reflect any changes as appropriate.

(d) Some requested that the boards provide (non-mandatory) implementation guidance on the definition, such as was provided for IFRS 4. The staff believes that issuing such non-mandatory implementation guidance is inconsistent with the current practice of the boards. However, we will continue to consider this point.

15. In addition, we noted the following comments, which would involve no substantive change but may require attention in drafting:

(a) Some suggest that the definition of an insurance contract should refer to non-market variables, rather than non-financial variables. They indicate that this would be more consistent with drafting elsewhere in the ED.

(b) Some propose the elimination of the requirement for there to be an insurable interest. In particular, they suggest that the contract need not require the existence of an insurable interest if the nature of the insured risk and the form and purpose of the contract indicate that it is appropriate to assume the presence of an insurable interest, as those respondents argue is usually the case for life and health insurance.

(c) Some note that the term 'policyholder' is used to mean both the party buying insurance and the beneficiary under the insurance contract. However, because of how the term policyholder is defined and used in IFRS 4 and the ED, the distinction between counterparty and beneficiary is not needed.

16. We reproduce in Appendix B, a suggestion made by the International Association of Insurance Supervisors to clarify and streamline the definition of an insurance

contract. However, for the reasons discussed in this paper, we do not recommend a wholesale change to the definition of an insurance contract at this stage.

Staff analysis and recommendation

17. This section considers whether the boards should retain the proposal in the ED/DP that the application guidance supporting the definition of an insurance contract in IFRS 4 should be amended to state that:
    (a) a contract does not transfer significant insurance risk if there is no scenario that has commercial substance in which the insurer can suffer a loss, with loss defined as an excess of the present value of net cash outflows over the present value of the premiums.
    (b) an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant.

18. This section also considers the treatment of contractual features that require the policyholder to make additional payments that, in effect, limit the risk to the insurer. Similar considerations apply when the insurer shares risk by returning to the policyholder an amount for experience refund.

Possibility of loss over whole life of contract

19. When an insurer assesses whether an insurance contract transfers significant insurance risk, IFRS 4 requires the insurer to consider whether an insured event could require the payment of significant additional benefits in any scenario that has commercial substance. The ED/DP proposed a further requirement to consider whether there is a possibility of loss over the whole life of the contract (in order to converge with what the staff were informed is existing US practice). That requirement was implemented by new wording in paragraph B25 of the ED, which states: “A contract does not transfer insurance risk if there is no scenario that has commercial substance in which the present value of the net cash outflows paid by the insurer can exceed the present value of the premiums.”

20. Paragraph BC191(c) notes that the boards had no specific reason to think that the absence of such a test in IFRS 4 has led to misleading classification of contracts, but that the inclusion of such a test is consistent with their understanding of practice under US GAAP.

21. Although IFRS 4 does not contain an additional test referring to the possibility of a loss over the life of the contract, the staff understand that some insurers applying IFRS have used this test to determine whether to use deposit accounting (ie financial instruments accounting) for contracts that meet the definition of an insurance contract. This is because IFRS 4 permits insurers to continue most aspects of their previous accounting for insurance contracts, and for some insurers applying IFRS 4 their previous accounting was US GAAP. The staff understands that at least some of these insurers have been applying deposit accounting to contracts that meet the definition of an insurance contract in IFRS 4, but do not expose the issuer to the possibility of a significant loss. Once the insurance contracts standard is implemented, those insurers would need to use the insurance contracts model for those contracts, not the financial instruments model. Thus, for these insurers at least, some believe that the absence of this test is not problematic under IFRS 4, but may become so when they implement the new standard.

22. Using insurance contract accounting for significant financing (deposit) elements within insurance contracts could have the following consequences:

    (a) If the boards do not retain the summarised margin approach proposed in the ED and DP, the insurer would present deposit receipts as revenue and deposit repayments as claims or policyholder benefits. Some may be concerned that such a classification may affect key ratios based on data such as premium volume and premium to surplus ratios.

    (b) Contract liabilities and contract assets would be reported as insurance contract liabilities and insurance contract assets, rather than as deposit balances (similar to debt). Similarly, interest income and expense on these liabilities and assets would be reported as interest on insurance

contracts, rather than as deposit interest (financing expense). Some may be concerned that such a classification may affect key ratios based on data such as debt ratios and the carrying amount of insurance liabilities.

(c) The deposit element would not be eligible for measurement at amortised cost, nor would it be eligible for the fair value option. (In practice, for the deposit element a measurement obtained using the building block approach may not differ materially from a measurement at fair value, however, the unwinding of the discount and the investment expense recognised in each period would differ. See appendix C for calculation and results.)

(d) For insurance contracts, a broader range of acquisition costs may be reflected in the initial measurement than under equivalent standards for financial instruments.

23. In the staff's view, the insertion or omission of the test referring to the possibility of a loss over the life of a contract will have a practical effect only when a contract combines both the transfer of significant insurance risk and a significant financing element. Thus, the decision whether to remove or retain that proposed test depends on whether the boards wish to include such financing elements within the scope of the insurance contracts standard. In the staff's view, the boards have three options:

(a) Remove the proposed requirement that the present value of the net cash outflows paid by the insurer must exceed the present value of the premiums in all circumstances.

(b) Remove that proposed requirement and require insurers to unbundle significant financing components.

(c) Amend the proposed requirement to state explicitly that risk transfer is deemed to be significant for reinsurance contract if it transfers substantially all of the risk in the underlying contract.

24. The advantages of removing the additional test as described in paragraphs 23(a) and 23(b) are as follows:

(a) It would avoid the disruption that could be caused by changing the existing definition. What is working and well understood will remain intact. No additional requirements are introduced for which no clear advantage was identified.

(b) As noted in paragraph 13(b), the current form of this proposed requirement could be problematic for some reinsurance contracts that cover an entire pool of risks. Some argue that if retained, the requirement should be supplemented by additional guidance that risk transfer is deemed to be significant if the reinsurance contract transfers substantially all of the risk in the underlying contracts (following US GAAP).

(c) It would avoid the additional work involved in applying the "possibility of a loss" test. (However, proponents of this test believe that it would not require additional work in most cases, because it is generally self-evident whether a contract passes the test.)

(d) We would not need to consider developing transitional provisions for any insurance contracts that met the definition in IFRS 4 but would not meet this additional test and thus no longer be within the scope of the insurance contracts standard.

25. In addition, the following considerations apply to whether or not to unbundle:

(a) It would avoid the possibly arbitrary judgements needed to apply unbundling if the additional test were to be removed without a requirement to unbundle any significant financing element, however

(b) Removing the additional test and unbundling a significant financing element would result in accounting for the insurance component as an insurance component and the financing component as a financial instrument, rather than accounting for the entire contract as either an insurance contract or a financial instrument.

26. The advantages of retaining the additional test (ie the option described in paragraph 23(c)), adjusted as described in paragraphs 13(b) would be:

(a) It is consistent with practice under existing US GAAP and practice elsewhere that emerged when some insurers defaulted to US GAAP under IFRS 4.

(b) It would avoid possibly misleading effects of classifying financing elements as if they were insurance contracts.

(c) It would avoid the possibly arbitrary judgements needed to apply unbundling.

(d) Although the insurance contract project does not address policyholder accounting, retaining the additional test would mean that policyholders would need to apply financial instruments accounting to some contracts containing a significant financing element, rather than treat those contracts as insurance contracts.

Time value of money

27. The proposal that an insurer should take into account the time value of money in determining whether the insurer would pay significant additional benefits in a particular scenario was widely accepted in the comment letters.

28. Some staff believe that this proposal would not cause a significant change to current practice under IFRS. Therefore they do not believe there is a compelling need to reconsider this requirement. However, as described in paragraph 36, they do not think that there is a compelling reason to confirm this change either.

29. Other staff believe that the comment letters provide insufficient reason to eliminate the modifications to the application guidance on the definition of an insurance contract in IFRS 4 that were proposed in the ED and DP.

30. In the staff's view, this amendment proposed in the ED/DP raises three issues:

(a) the accounting for insured events that will give rise to payments of uncertain timing;

(b) whether to consider the time value of money in assessing whether the transfer of insurance risk is significant; and

(c) how to treat contract terms that delay timely reimbursement to the policyholder.

31. Paragraph B30 of the ED (identical to paragraph B27 of IFRS 4) states:

> "Paragraph B24 [on significance of insurance risk] refers to additional benefits. Those additional benefits could include a requirement to pay benefits **earlier if the insured event occurs earlier and the payment is not adjusted for the time value of money**. An example is whole life insurance for a fixed amount (ie insurance that provides a fixed death benefit whenever the policyholder dies, with no expiry date for the cover). It is certain that the policyholder will die, but the date of death is uncertain. The insurer will suffer a loss on those individual contracts for which policyholders die early, even if there is no overall loss on the whole book of contracts." [emphasis added]

Thus, IFRS 4 already incorporates the notion that the time value of money is relevant in determining the effect of an insured event. The ED/DP proposed no change in this regard.

32. Under IFRS 4, an insurer is required to compare the **undiscounted** amount of net cash outflows in each scenario. If the cash flows in one scenario can be significantly higher than in other scenarios, there is a transfer of significant insurance risk. The ED/DP proposed to amend this test: an insurer should compare **present values** of cash flows in each scenario. If the present value of the cash flows in one scenario can be significantly higher than in other scenarios, there is a transfer of significant insurance risk.

33. This change would have the following effect: suppose the insured event is many years in the future. The present value of those cash flows could be small at inception, but will grow with the passage of time. Suppose that the additional cash paid is significant, but its present value at inception is insignificant:

(a) Under IFRS 4, the insurance risk for that contract would be assessed as significant at inception and throughout the life of the contract.

(b) Under the proposal in the ED, the insurance risk for that contract would be assessed as insignificant at inception, but at some stage it would flip to significant merely through the passage of time.

In developing the original guidance in IFRS 4, the IASB tried to avoid requiring changes in classification during the life of a contract, because it thought that could be confusing and burdensome.

34. US GAAP guidance on the definition of reinsurance contracts refers to contract clauses that delay timely reimbursement to the policyholder. An example of such a clause is one that requires the insurer to pay claims at a fixed date, regardless of when the insured event occurs. By careful structuring, such clauses can have the practical effect that the insurer is not exposed to significant risk about the amount and timing of the payments that it will make. In some staff's view, such clauses would not be viewed as transferring significant insurance risk under either the existing guidance in IFRS 4 or the proposals in the ED/DP.

Risk limiting features

35. Some insurance contracts contain features that require the policyholder to make additional payments to the insurer that, in effect, repay the insurer for benefits previously paid by the insurer to the policyholder. Other insurance contracts contain features that require the insurer to return premium paid to the policyholder other than for a loss event. These features include some experience refunds, adjustable features, additions of profitable lines of business to a reinsurance contract, sliding scale and other adjustable commissions, retrospective rating, adjustments to future premiums or adjustments to future coverage. Those adjustments are described in appendix C. In relation to these features, the staff intend to consider the following:

(a) In the staff's view, it is implicit in the ED's application guidance on the definition of an insurance contract that, in assessing whether the insurance risk transferred by a contract is significant, an insurer would consider not only the benefits paid to policyholders in each scenario, but also any subsequent return of part of or all of those benefits. The staff will consider in drafting whether this needs to be made more explicit.

(b) Contractual terms that require the policyholder to return to the insurer some or all of the benefits paid by the insurer are, in effect, policy loans. The staff will consider whether policy loans should be unbundled.

(c) Whether these cash flows fall within the boundary of the existing contract and so would be included in the measurement.

Staff recommendation

36. In the view of some staff, the arguments for and against making the two changes to the IFRS 4 guidance on the definition of an insurance contract are relatively balanced. However, those staff observe:

(a) the proposed changes were made on the basis that they would not change existing practice.

(b) some comment letters raise concerns about changes in existing practice that would result from the proposed changes.

(c) some also argue that a change to the definition of an insurance contract would require them to re-assess all their existing contracts to ensure that they all met the new definition.

(d) given that there was no intention to change existing practice, the benefits of the change are small. Thus, the staff believes that the costs for entities to establish that they have complied with the new definition do not outweigh those benefits. Furthermore, there would be additional costs for any entities with contracts that would no longer meet the definition of an insurance contract.

(e) If the boards have concerns about contracts that contain significant financing elements, they can address those concerns when they discuss unbundling.

37. Other staff believe that the boards should retain the two changes to the IFRS 4 guidance on the definition of an insurance contract proposed in the ED/DP. Appendix D sets out the reasons for their views.

Definition of insurance contract
Do the boards agree to eliminate the requirements proposed in the ED/DP that: (a) an insurer takes into account the time value of money in determining whether it will pay significant additional benefits in a particular scenario; and (b) a contract does not transfer insurance risk if there is no scenario that has commercial substance in which the present value of the net cash flows paid by the insurer can exceed the present value of the premiums?

Appendix A – extracts from the Exposure Draft

From the Application Guidance

B25 In addition, a contract does not transfer insurance risk if there is no scenario that has commercial substance in which the present value of the net cash outflows paid by the insurer can exceed the present value of the premiums.

B26 In determining whether it will pay significant additional benefits in a particular scenario, the insurer takes into account the effect of the time value of money. As a result, contractual terms that delay timely reimbursement to the policyholder can eliminate significant insurance risk. Consider the following reinsurance example. A cedant enters into a contract covering a book of one-year contracts. The contract provides that the reinsurer's payment will be ten years after the start of the contract. At the beginning of the contract, the reinsurer expects that claims will range from CU1,000 to CU1,200.[2] In assessing whether the reinsurance contract transfers significant insurance risk, the reinsurer considers the present value of the future payments in each scenario, ie not their nominal amounts. Assuming a discount rate of 5 per cent, the relevant benefit payments range from CU614 to CU737 (ie the nominal payments discounted at a rate of 5 per cent over 10 years).

From the Basis for Conclusions

BC191 In developing the draft IFRS, the Board compared the IFRS 4 definition with US GAAP requirements to identify possible improvements that could be made to that definition and considered the main differences, as follows:

(a) *use of 'compensation' rather than 'indemnification' in describing the insurance contract benefit.* In the Board's view, these terms have broadly the same meaning. However, describing an insurance contract as compensating the policyholder may be more intuitive in some instances, for example in referring to a death benefit in a life insurance contract that compensates the beneficiary with a specified amount for the loss of the insured's life. Accordingly, the Board retained 'compensation' in the definition of an insurance contract.

(b) *the role of timing risk.* US GAAP requires the presence of both timing risk and underwriting risk in an insurance contract, whereas IFRS 4 treats contracts that transfer either underwriting risk or timing risk as insurance contracts. In US GAAP, much of the pressure on the notions of underwriting risk and timing risk arises because the accounting for some insurance

[2] In this [draft] IFRS, monetary amounts are denominated in 'currency units (CU)'.

contracts does not require insurers to discount the expected future cash flows when measuring the insurance liability. However, that pressure is not present in the model proposed in the draft IFRS. Therefore, the Board does not propose to require the presence of both timing risk and underwriting risk. However, the draft IFRS introduces a proposal that an insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario (ie if an insured event occurs) are significant (see paragraph B26).

(c) *the notion of a loss.* When an insurer assesses whether an insurance contract transfers significant insurance risk, IFRS 4 requires the insurer to consider whether an insured event could require significant additional benefits in any scenario that has commercial substance (see paragraph B23 of IFRS 4 and paragraph B24 of the draft IFRS). The Board understands that practice under US GAAP considers whether the present value of net cash outflows can exceed the present value of premiums in any scenario. The Board proposes to import that as an additional test (see paragraph B25 of the draft IFRS). Although the Board has no specific reason to think that the absence of such a test in IFRS 4 has led to misleading classification of contracts, the inclusion of such a test is consistent with the Board's understanding of practice under US GAAP.

Appendix B – Comments from the International Association of Insurance Supervisors

The IAIS believes there is an opportunity to both clarify and streamline the drafting of paragraphs 2 to 6 on the scope of the standard and paragraphs B2 to B33 on the definition of an insurance contract. It is suggested that the definition of an insurance contract should be mentioned up-front in the standard. The suggested wording for paragraph 7 is:

7. An insurance contract is a contract under which one party (the insurer) accepts significant insurance 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 where:

    (a) an uncertain future event refers to uncertainty as to:

        (i) whether an insured event will occur;

        (ii) when it will occur; or

        (iii) how much the insurer will need to pay if it occurs.

    (b) compensation may be in cash or in kind.

    (c) insurance risk is defined as a pre-existing risk (arising from a possible adverse event impacting on the policyholder), other than financial risk, transferred from the holder of a contract to the issuer, and

    (d) significant insurance risk is deemed to be present if situations of commercial substance exist in which the present value of compensation significantly exceeds the present value of amounts that would be payable if no insured event occurred, even where the probability of those situations is extremely low.