STAFF PAPER

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Insurance working group

Project	Insurance contracts
Topic	Reporting back on the accounting for non-insurance components in an insurance contract

CONTACT(S)	Andrea Pryde	apryde@ifrs.org	+44 (0)20 7246 6491
	Joanna Yeoh	jyeoh@ifrs.org	+44 (0)20 7246 6481
	Izabela Ruta	iruta@ifrs.org	+44 (0)20 7246 6957

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1. This paper provides:

   (a) A feedback statement on the IASB's tentative decisions on the accounting for non-insurance components in an insurance contract. This statement includes an outline of significant matters that were raised with us and how we responded.

   (b) Examples illustrating how those tentative decisions would be applied.

   (c) A working draft of how we propose to implement those tentative decisions. This draft has been prepared by IASB staff and has not been reviewed by the IASB. Official pronouncements of the IASB are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

2. In a future meeting, the IASB plans to consider the allocation of cash flows between components that are measured using the insurance contracts Standard and those that are measured using another Standard.

Question for working group members
Do you have any comments on the IASB's tentative decisions or the proposed drafting?

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

Introduction

An insurance contract creates a bundle of rights and obligations that work together to generate a package of cash inflows and cash outflows. Some insurance contracts provide more than just insurance coverage. Insurance contracts can, for example, also provide the policyholder with goods or services other than insurance coverage (a revenue-generating transaction with a customer) or an investment (a financial instrument). If such components were accounted for as if they were separate contracts (unbundled) they would be within the scope of another Standard.

The IASB's exposure draft *Insurance Contracts* (the ED) proposed that an insurer should unbundle a component that is not closely related to the insurance coverage specified in the contract. To clarify its intentions and assist insurers in applying the unbundling requirements, the IASB identified some common examples of components that are not closely related to the insurance coverage.

In the comment letters on the ED:

- Some respondents supported the principle that non-insurance components should be unbundled from insurance contracts, especially if unbundling is possible and if investment components or simple (deposit-like) elements can be clearly segregated.
- Some questioned whether the benefits of unbundling—increased comparability and transparency about the unbundled component—justify the costs that arise as a result of the complexity and subjectivity inherent in unbundling, especially when:
    - the components cannot be separated from one another in a non-arbitrary manner because the cash flows may be interdependent; or
    - the unbundled component would be measured at fair value (whereas the insurer would instead measure it at a current value based on fulfillment if it were not unbundled).
- Many stated that the proposals in the ED for unbundling were unclear and could be interpreted in different ways. In particular, many questioned how the examples of components that are not closely related to insurance coverage would interact with the 'closely related' principle.

In this paper we describe the IASB's tentative decisions to date and provide a working draft to show how the IASB would implement its tentative decisions.

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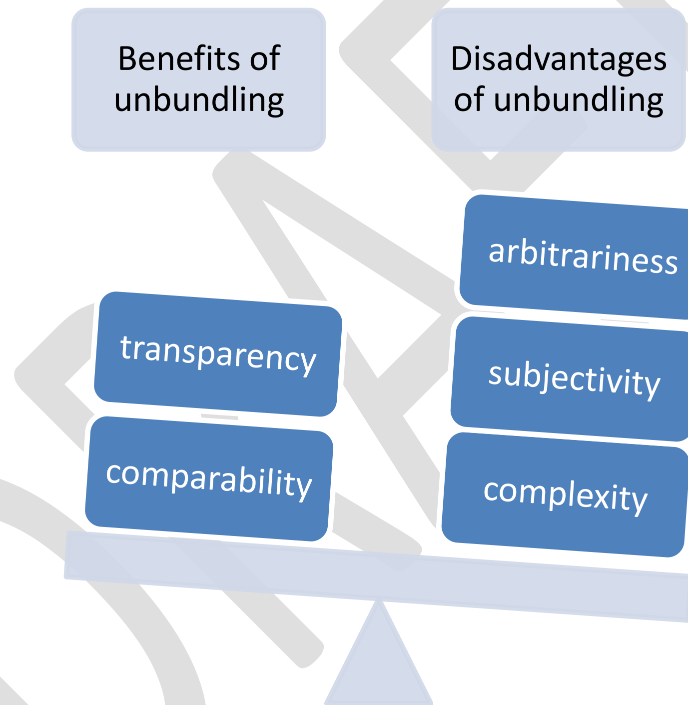
Non-insurance components present in an insurance contract

The insurance contracts model developed by the IASB is intended to reflect the many different ways in which insurers make money. There are three principle sources of profit from insurance contracts: underwriting results, investment results and fee income. Some contracts focus predominantly on one type of activity, for example, many non-life contracts focus on providing risk protection. However, most insurance contracts blend different activities in different proportions and sometimes the importance of those activities varies over the life of a contract.

Unbundling non-insurance components, such as investment components, goods, non-insurance services and embedded derivatives, can improve *transparency* by providing insight into the components of an insurance contract that do not respond to changes in circumstances in the same manner as components affected by insurance risk.

Unbundling can also provide *comparability* by requiring two insurers to account for a non-insurance component in the same way, even if the one insurer has a separate, but otherwise identical, contract.



However, the benefits of unbundling need to be weighed against the disadvantages: separating a single contract into components when the cash flows attributable to the components are intertwined could result in *complex, arbitrary accounting*. One of the reasons why the IASB rejected the idea of simply including insurance contracts within the scope of generic standards is the difficulty, and possible arbitrariness, of identifying which investment components, which goods or services, and which embedded derivatives should be accounted for separately, and the complexity and lack of usefulness of applying different approaches to different components of complex contracts.

After weighing up the above advantages and disadvantages, the IASB proposed unbundling non-insurance components that are not closely related to the insurance contract and accounting for such components using other Standards.

Embedded derivatives

Proposal in the ED

IAS 39/IFRS 9 require insurers to separate embedded derivatives that are not closely related to the host insurance contract. The ED proposed maintaining that requirement.

Respondents' comments

Some support the ED's proposals to keep the existing requirement to separate ('bifurcate') embedded derivatives that are not closely related to the insurance contract and to account for those embedded derivatives using financial instruments Standards. They believe that this produces more understandable information than accounting for them as part of the insurance contracts liability, for the following reasons:

- separation highlights the different risks arising from embedded derivatives and from the insurance contracts that contain them; and
- insurers using IFRS already separate embedded derivatives from insurance contracts if they are not closely related to those contracts—hence, there is little additional cost in continuing to follow current practice.

Some respondents recommended that all embedded derivatives in an insurance contract should be accounted for under the proposed model for insurance contracts (ie should not be bifurcated).

Some asked for clarification about the proposed requirements, for example, the treatment of cash-surrender options.

Our response

We confirmed the ED proposal to unbundle embedded derivatives that are not closely related to insurance components and to apply the financial instruments Standards in accounting for such embedded derivatives.[1]

In response to comments received, we clarified the bifurcation guidance on the instances when cash-surrender options should be unbundled in accordance with IFRS 9 *Financial Instruments*.

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[1] IFRS and US GAAP have different requirements for bifurcating embedded derivatives from insurance contracts.

Non-insurance goods or services

Proposal in the ED

The ED identified as not closely related to the insurance component goods or services that have been combined in a contract with insurance coverage for reasons that have no commercial substance.

Respondents' comments

The feedback received generally supported the proposal that unbundling should be required for goods and services that have been combined with insurance coverage for reasons without commercial substance. Feedback was mixed on whether that should be the only criterion, or whether unbundling should be prohibited when it is not required.

Some were unclear whether the bifurcation guidance on 'closely related' embedded derivatives would also apply to goods and services, and asked how they should interpret the guidance in that context.

Our response

We tentatively decided that an insurer should determine which goods and non-insurance services should be unbundled using criteria based on those used for identifying distinct performance obligations in the exposure draft on revenue recognition. Thus, a good or service would be unbundled if there is a distinct performance obligation to provide that good or service.

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Investment components

Proposal in the ED

The ED identified as not closely related to the insurance component an investment component reflecting an account balance that meets the following criteria:

- the account balance is credited with an explicit return; and
- the crediting rate for the account balance is based on the investment performance of the underlying investments. The crediting rate must pass on to the individual policyholder all investment performance net of contract fees and assessments.

Respondents' comments

Some requested further clarification on the application of the 'closely related' criterion to investment components.

Some believed that unbundling investment components from insurance components would enhance a user's ability to compare the insurer's risk profile with the risk profile of other insurers and non-insurers. Others indicated a preference to unbundle investment components so that the investment components can be measured using the same measurement attribute as the assets backing the insurance liability (ie at amortised cost or fair value) to reduce an accounting mismatch.

Still others supported the proposal to unbundle the specified account balances, to allow for a continuation of current unbundling practices that they believe work well.

Practically, most respondents support separating investment components from insurance components but doubt whether the benefits of doing this outweigh the costs because:

- the measurement of the unbundled component would be similar to the measurement that would result if it were to be measured at fair value;
- when the different components give rise to cash flows that are interdependent, those components cannot be separated from one another in a non-arbitrary manner;
- an investment component is arguably a feature of most long-term insurance contracts, not just of those contracts that contain explicit account balances. Unbundling some, but not all, of those contracts would not increase comparability between insurance contracts; or
- insurers do not manage or report on the different components separately for regulatory or financial reporting purposes.

Some of these respondents indicated that, in their opinion, the costs of the form of unbundling proposed in the ED would outweigh the benefits, but that the benefits might outweigh the costs if the information could be provided in a more efficient manner.

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Investment components (continued)

Developments since the ED

One common problem in existing accounting is that the deposit receipts inherent in some insurance contracts would mean that income reported by an insurer would not be presented on a comparable basis with income reported by a bank, which uses what is sometimes called 'deposit accounting'. Deposit accounting involves the following:

- one party recognises the consideration received as a financial liability, rather than as revenue; and
- the other party recognises the consideration paid as a financial asset, rather than as an expense.

The ED proposed a 'summarised margin approach' that views all cash inflows associated with an insurance contract as deposits received from the community of policyholders and all the cash outflows as repayments to the community of policyholders. The summarised margin approach does not present those inflows and outflows as income or expense and so avoids the problems of comparability between deposit receipts in insurance contracts and deposits received by banks.

However, since the end of the comment period, the IASB has decided that an insurer should present premiums, claims and expenses in the statement of comprehensive income. This results in the need to reconsider the accounting for investment components present in insurance contracts.

Our response

One way to achieve deposit accounting for deposits is to unbundle the investment component from the insurance contract.

Unbundling may be straightforward when the cash flows for the investment component and insurance component are not interrelated. However, we believe that an insurer should report income and expense for both implicit and explicit account balances in the same way. Furthermore, we were persuaded by arguments that, particularly with implicit account balances, the cash flows for the investment and insurance components are often highly interrelated. As a result, we believe that the complexity, subjectivity and arbitrariness of unbundling many implicit account balances would provide information with limited value. We concluded that better information is provided if highly interrelated investment and insurance components are accounted for as a single insurance contract.

To address respondents' concerns about including deposit receipts in premiums and deposit repayments in claims expenses and to address their concerns about the implementation cost, and limited benefit, of separating cash flows that are highly interrelated, we decided that:

- an insurer should unbundle investment components from insurance contracts where the cash flows are *not* highly interrelated with the cash flows from the insurance component; and
- for investment components that are measured as part of the insurance contract (ie not unbundled), premiums and claims expenses presented in the statement of comprehensive income should exclude any amounts that the insurer is obliged to pay to policyholders regardless of whether an insured event occurs.

We plan to consider the allocation of cash flows between unbundled components in the week beginning 18 June.

Other matters

Proposal in the ED	*Respondents' comments*	*Our response*
Policy loans and riders Policy loans and riders are features that may be present in insurance contracts. The ED did not specify whether policy loans or riders should be unbundled.	Some asked whether, and how, the guidance on unbundling would be applied to policy loans and riders.	We decided that: • in applying the general decisions on accounting for investment components present in an insurance contract, policy loans form part of the investment component to which they relate. • the general decisions on accounting for non-insurance components should apply to riders that are part of the contractual terms of an insurance contract at inception. • riders that are added to a contract after inception should be treated as contract modifications.
Prohibition of further unbundling IFRS 4 *Insurance Contracts* permits unbundling if specified criteria are met. The ED proposed that unbundling would be prohibited when it is not required.	Some insurers requested that unbundling be allowed in cases when it is not required because they would like to continue their current practice of unbundling.	We confirmed that unbundling would be prohibited when it is not required. Permitting an option to unbundle would reduce comparability among insurers. We note that insurers could disaggregate the insurance contract liability into an investment component and an insurance component (both measured in accordance with the insurance contracts Standard), because IAS 1 *Presentation of Financial Statements* permits entities to provide further line items.

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Overview of decisions on non-insurance components present in an insurance contract

The following diagram illustrates the combined effect of our decisions:

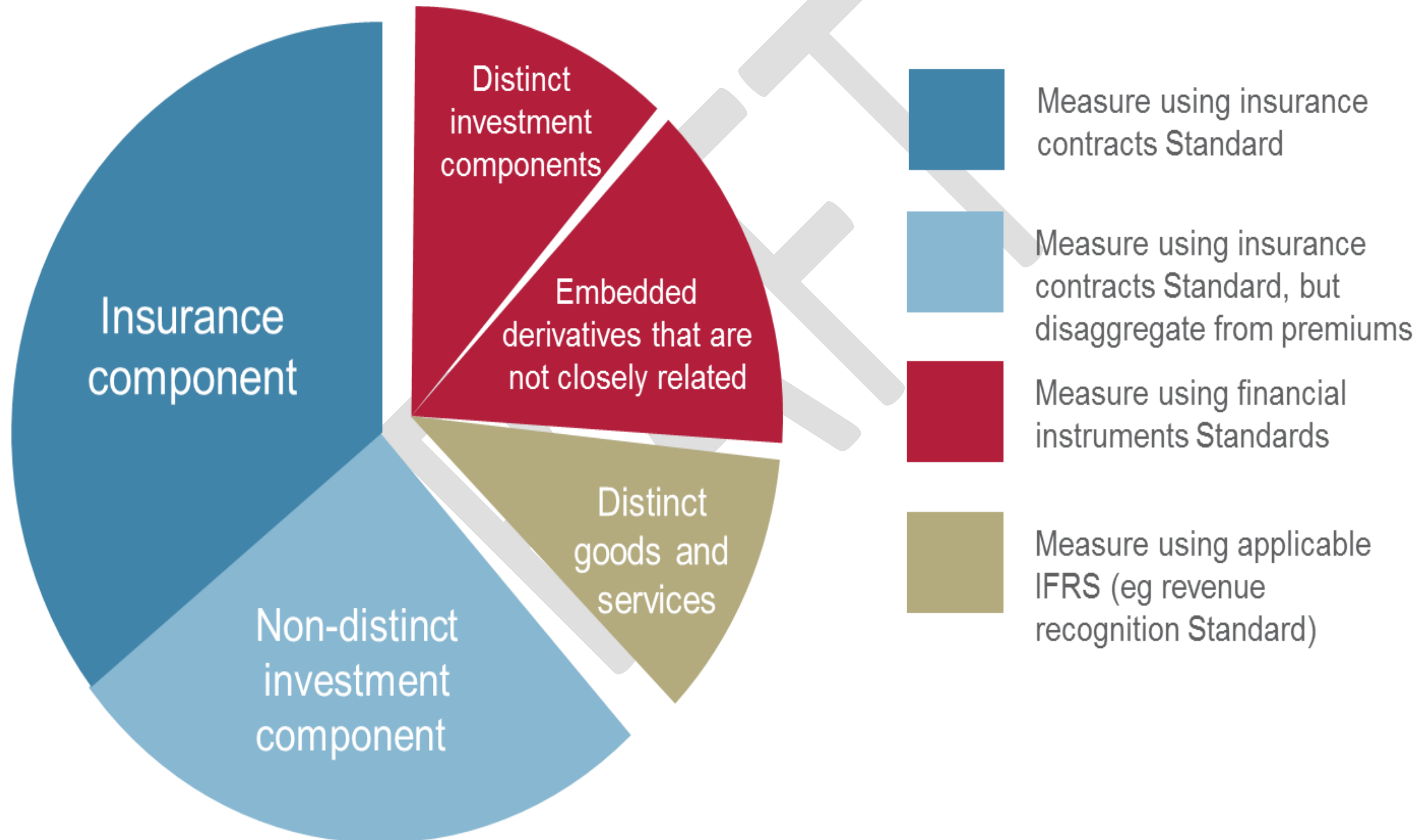

Illustration of the proposed requirements for accounting for goods or non-insurance services components

An insurer would be required to unbundle distinct performance obligations to provide goods and services. These examples illustrate how the requirement would apply to some contracts.

Description / Facts	Analysis
Example 1 ***Car sold with free insurance*** A contract for a sale of a car with 'free' 3-year non-cancellable motor accident insurance. The insurer does not otherwise sell cars.	**Is there a performance obligation to provide a good or service to the policyholder?** Yes, the car is a good that transfers to the policyholder. **Is the good or service component distinct?** Yes, the car is distinct because the policyholder can use the car on its own. The car can be driven with motor insurance provided by another insurer. **Result:** unbundle the sale of the car and account for the sale of the car under revenue recognition requirements.
1(a) ***Car leased with free insurance*** Assume the same fact pattern as for example 1 except, in this example, the vehicle was leased to the customer for a period of three years, rather than sold.	**Note:** The analysis for this example is identical to that provided in example 1. **Result:** unbundle the lease contract and account for the lease of the car under the leasing requirements.
Example 2 ***Claims processing services*** An insurer may sell claims processing services on a stand-alone basis to a customer and might also sell those services bundled with a stop-loss insurance contract. To provide financial protection against catastrophic health insurance claims, some self-insuring employers (that provides health insurance to its employees) purchase stop-loss insurance from	

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insurers. For this example, assume the following fact patterns:	
2(a)	
The customer provides health insurance to its employees and has chosen to self-insure. Instead of processing the claims of the employees, the customer buys claims processing services from an insurer but does not purchase insurance coverage. The insurer will process the employees' health insurance claims on behalf of the customer.	Not applicable. The contract to provide the claims processing services would not meet the definition of an insurance contract. The provider should account for those services under the revenue recognition requirements.
2(b) A policyholder buys a stop-loss contract that provides: • 100% insurance coverage for aggregate group claims exceeding CU[2] 25M. The policyholder will self-insure below this amount. • Claims processing services for the entirety of the upcoming 12 months, regardless of whether the policyholder has breached the stop-loss threshold of CU 25M. The insurer is responsible for processing the health insurance claims of the employees on behalf of the employer. The insurer sometimes sells claims processing services as a standalone service without any insurance coverage, as do a number of other entities.	**Is there a performance obligation to provide a good or service to the policyholder?** The policyholder is receiving: 1) stop-loss coverage to protect it against aggregate claims exceeding CU 25M; and 2) services to process the individual claims of its employees. Provision of these services to the policyholder enables the policyholder to provide health insurance to its employees (as it self-insures). **Is the good or service component distinct?** The claims processing services are distinct in this example because the services benefit the policyholder independently of the insurance (ie without the services, the policyholder would have to perform such services for its employees). This is indicated by the fact that the insurer, or other entities, sells the service on a standalone basis. **Result:** unbundle the claims processing services and account for those services under the revenue recognition guidance.

[2] In this paper, CU means currency unit

Example 3 ***High-deductible health insurance plan***

Under these contracts, the policyholder or group member is responsible for 100 per cent of the costs at the beginning of the contract period up to a defined threshold or deductible amount. The contracts are sold both to individuals and to groups, generally with an annual term.

In this example, the deductible (sometimes referred to as an 'excess' amount) is CU 2,000. After the policyholder meets its deductible, the contract converts into a regular co-insurance arrangement whereby the insurer is responsible for 80 per cent and the policyholder is responsible for 20 per cent until the policyholder reaches an annual out-of-pocket maximum of CU 6,000. At that point the insurer is responsible for 100 per cent of the losses.

The insurer provides administrative services to the policyholder for the entire duration of the contract. The services include claims processing services and network access (the ability to obtain health services from specified health professionals, sometimes at a discount or at different deductible or co-insurance levels). The claims processing services and network access are not sold separately by the insurer, nor could they be purchased from a third party.

Is there a performance obligation to provide a good or service to the policyholder? In this example, no goods or service transfer to the policyholder. The claims processing and network access would be considered activities of the insurer because the insurer would need to perform these activities to fulfil its insurance obligation (ie claims processing allows the insurer to adequately assess a policyholder's benefit status without having to gather and audit data from the period prior to the policyholder having met their deductible or excess amount). The policyholder receives no separate benefit from those activities.

Are the good or service components distinct? Not applicable, because the claims processing services and network access are activities of the insurer, as opposed to performance obligations.

Result: do not unbundle either service at any point during the contract.

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Illustration of the proposed requirements for the accounting for investment components in an insurance contract

These examples illustrate how the requirements for accounting for investment components would be applied to some contracts.

Example 1

An insurer issues a life contract (accounted for under the building block approach) for CU 1,000 of premiums (all paid at contract inception) and a death benefit of CU 5000. The contract allows the policyholder to contribute additional premiums into an account balance or to cancel the contract and receive a cash surrender value equal to the account balance (ie there are no surrender charges). The account balance is credited with a return based on the performance of specified assets and is debited on a daily basis for fees that comprise:

(a) asset management fees at an annual rate of 1.5%; and

(b) an insurance charge at an annual rate of 2.5% on the death benefit (ie CU 5000).

The life insurance contract will remain in effect as long as the account balance is funded sufficiently to allow for deductions of mortality and expense charges.

Unbundle distinct components?

The asset management services are distinct because the policyholder can benefit from the returns provided by the investments separately from the insurance coverage, and the risk and value of the death benefit does not depend on the amounts accumulated in the investment components, which is affected by the returns provided by the insurer's asset management services. Hence, the asset management services are unbundled and accounted for under the revenue recognition guidance.

An equivalent investment product to the account balance with the investment returns (without the insurance cover) is sold by another financial institution, which indicates that the components may be distinct. However, the life insurance cover and the account balance lapse or mature at the same time, which means that the insurance and investment components are highly interrelated, and so are not distinct. Consequently, the investment component is not unbundled.

Exclude deposit component from volume information?

The policyholder or his or her beneficiary will receive the account value regardless of whether an insured event occurs. The present value of that amount is excluded from premiums recognised in the statement of comprehensive income. That present value is the amount received (ie premium of CU 1,000) less the present value of any mortality and expense charges estimated to be deducted from this account balance. Consequently, in this example, the premium to be recognised in the statement of comprehensive income over the life of the contract will equal the estimated charges for the insurance cover.

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Example 2	*Unbundle distinct components?*
An insurer issues a traditional whole life policy for CU 1,000 of premium with a death benefit of CU 5,000 that allows the policyholder to cancel the policy and receive a cash surrender value of CU 100 initially and increasing by 10% per annum. An insurer has a claims processing department to process the claims received and a team of asset managers to manage its investments.	The claims processing services and asset management are part of the normal operating activities or internal process of an insurer. The contract promises a benefit on death or a payment on surrender. The process that the insurer follows to make that benefit/cash surrender payment is an internal process/activity and not a service to the policyholder. As a result, the insurer has no performance obligation to provide claims processing services and asset management services to the policyholder, and so has no services to be unbundled The investment component is not unbundled because the value of the death benefit depends on the accumulated cash surrender value and both the insurance and the investment component lapse together, and so the investment component is highly interrelated with the insurance component. *Exclude deposit component from volume information?* Assume that the insurer estimates that there is a 25% probability that the policyholder will cancel the policy after 5 years, a 25% chance that the policyholder will cancel after 10 years, and a 50% chance that the policyholder will die at the 30th anniversary of contract issuance (while the policy is in effect). Further assume that the insurer determines the applicable discount rate that reflects the characteristics of the liability is 5%. Based on the above assumptions, the probability weighted present value of amounts payable to the policyholder regardless of an insured event is CU 273[3]. Removing this amount from the CU 1,000 of premiums would result in CU 627 of premiums for the insurance component to be recognised in the statement of comprehensive income (in aggregate over the life of the contract).

[3] This amount is calculated as follows: the amount of surrender value payable to the policyholder would be CU 161 (ie 100 x 1.1^5) after 5 years, CU 259 (100 x 1.1^{10}) after 10 years, and CU 1745 (100 x 1.1^{30}) after 30 years (ie the amount payable after 30 years without an insured event occurring). The present value of each of these amounts is CU 126, CU 159, and CU 404, respectively. Probability-weighted, this equals CU273.

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Working draft

A working draft of the wording for the IFRS is as follows (changes from the ED are marked). New text is underlined and deleted text is struck through. This draft has been prepared by IASB staff and has not been reviewed by the IASB. Official pronouncements of the IASB are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

Standard

Unbundling

8 Some insurance contracts contain one or more components that would be within the scope of another IFRS if the insurer accounted for those components as if they were separate contracts, for example an investment (financial) component or a service component. Such contracts may be partially within the scope of this [draft] IFRS and partially within the scope of other IFRSs. An insurer shall apply paragraphs 8A–8G to the components of the contract. ~~If a component is not closely related to the insurance coverage specified in a contract, an insurer shall apply that other IFRS to account for that component as if it were a separate contract (ie shall *unbundle* that component). The following are the most common examples of components that are not closely related to the insurance coverage:~~

~~(a) an investment component reflecting an account balance that meets both of the following conditions:~~

~~(i) the account balance is credited with an explicit return (ie it is not an implicit account balance, for example derived by discounting an explicit maturity value at a rate not explicitly stated in the contract); and~~

~~(ii) the crediting rate for the account balance is based on the investment performance of the underlying investments, namely a specified pool of investments for unit-linked contracts, a notional pool of investments for index-linked contracts or a general account pool of investments for universal life contracts. That crediting rate must pass on to the individual policyholder all investment performance, net of contract fees and assessments. Contracts meeting those criteria can specify conditions under which there may be a minimum guarantee, but not a ceiling, because a ceiling would mean that not all investment performance is passed through to the contract holder.~~

~~(b) an embedded derivative that is separated from its host contract in accordance with IAS 39 (see paragraph 12 below).~~

~~(c) contractual terms relating to goods and services that are not closely related to the insurance coverage but have been combined in a contract with that coverage for reasons that have no commercial substance.~~

~~9 In unbundling an account balance specified in paragraph 8(a), an insurer shall regard all charges and fees assessed against the account balance, as well as cross-subsidy effects included in the crediting rate, as belonging to either the insurance~~

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~~component or another component, but are not part of the investment component. Thus, the crediting rate used in determining that account balance reflects a crediting rate after eliminating any cross-subsidy between that rate and the charges or fees assessed against the account balance.~~

[Staff note: the IASB will consider the allocation of cash flows between unbundled components in the week of 18 June.]

8A An insurer shall:

(a) separate an embedded derivative from the host insurance contract and account for it in accordance with IFRS 9[4] if, and only if, it meets both the following criteria:

(i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host insurance contract (see paragraphs B4.3.5 and B.4.3.8 of IFRS 9 and paragraph 8B); and

(ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and be within the scope of IFRS 9 (eg the derivative itself is not an insurance contract).

(b) separate a distinct performance obligation to provide goods or services, as defined in paragraphs 8C–8E, from the host insurance contract and account for it in accordance with other applicable IFRSs;

(c) separate a distinct investment component, as defined in paragraphs 8F and 8G, from the host insurance contract and account for it in accordance with IFRS 9; and

(d) apply this standard to all other components of an insurance contract.

8B The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host insurance contract if, for example, the embedded derivative and the host insurance contract are so interdependent that an entity cannot measure the embedded derivative separately, ie without considering the host contract (see paragraph B4.3.8(h) of IFRS 9).

8C Paragraph 8A(b) requires an insurer to separate from an insurance contract a distinct performance obligation to provide goods or services. A performance obligation is a promise in a contract with a policyholder to transfer a good or service to the policyholder. Performance obligations include promises that are implied by an insurer's customary business practices, published policies, or specific statements if those promises create a valid expectation by the policyholder that the insurer will transfer a good or service. Performance obligations do not include activities that an insurer must undertake to fulfil a contract unless the insurer transfers a good or service to the policyholder as those activities occur. For example, an insurer may need to perform various administrative tasks to set up a contract.

[4] Staff note: we intend to clarify the closely related criteria in IFRS 9 to state that:

1. a call, put, or prepayment option embedded in a host insurance contract is not closely *related to the host contract when the exercise of the option is triggered by a change in a financial variable such as an equity or commodity pri*ce or index), or a non-financial variable that is not specific to a contract.
2. an embedded foreign currency derivative in a host contract that is an insurance contract is closely related to the insurance contract provided it is not leveraged and does not contain an option feature.

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The performance of those tasks does not transfer a service to the policyholder as the tasks are performed. Hence those promised set-up activities are not a performance obligation.

8D A performance obligation to provide a good or service is distinct if either of the following criteria is met:

(a) the insurer regularly sells the good or service separately; or

(b) the policyholder can benefit from the good or service either on its own or together with other resources that are readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the insurer or another entity), or resources that the policyholder has already obtained (from the insurer or from other transactions or events).

8E A performance to provide a good or service is not distinct if the good or service is highly interrelated with the insurance component and the insurer provides a significant service of integrating the good or service with the insurance provided.

8F An investment component is distinct if it is sold separately in the same market or jurisdiction, unless the investment component and the insurance component are highly interrelated (see paragraph 8G). In evaluating whether the investment component is sold separately in the same market or jurisdiction, an insurer shall also consider markets for financial instruments, including investment products sold by non-insurers. An insurer need not undertake an exhaustive search of the market or jurisdiction to identify whether an investment component is sold separately.

8G An investment component and insurance component are not distinct if they are highly interrelated. This is the case if:

(a) the insurer is unable to measure either the insurance or the investment component separately without considering the other component. Thus, a contract containing an investment component and an insurance component is accounted for as a whole by applying this [draft] IFRS if the value of one component depends on the value of the other component.

(b) the policyholder is unable to benefit from one component unless the other component is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other component, the insurer accounts for the investment component and insurance component as a whole applying this [draft] IFRS.

10 An insurer shall not unbundle components of a contract that are closely related to the insurance coverage specified in the insurance contract.

11 Throughout this [draft] IFRS, the term 'insurance contract' refers to the components of an insurance contract that remain after unbundling any components in accordance with paragraph 8.

Embedded derivatives

12 IAS 39 applies to a derivative embedded in an insurance contract unless the embedded derivative is itself an insurance contract. IAS 39 requires an entity to separate an embedded derivative from its host contract, measure it at fair value and

~~recognise changes in its fair value in profit or loss, if the embedded derivative meets both of the following criteria:~~

~~(a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host insurance contract (see paragraphs AG30-AG33 of IAS 39). The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host insurance contract if, for example, the embedded derivative and the host insurance contract are so interdependent that an entity cannot measure the embedded derivative separately, ie without considering the host contract (see paragraph AG33(h) of IAS 39).~~

~~(b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and be within the scope of IAS 39 (eg the derivative itself is not an insurance contract).~~

Statement of comprehensive income

74 An insurer shall ~~not~~ present in the statement of comprehensive income~~, except as noted in paragraph 75(a):~~

~~(a)~~ premiums, ~~which instead are treated in the same way as deposit receipts; and~~

~~(b)~~ claims expenses, claims handling expenses, ~~incremental~~ acquisition costs and other expenses included in the measurement of the insurance contract.~~, which are instead treated in the same way as repayments of deposits.~~ However, if an insurer is obliged to pay a particular amount to policyholders regardless of whether an insured event occurs, the insurer shall exclude that amount from the premiums and claims expenses presented in the statement of comprehensive income. Such amounts shall be determined consistently with the measurement of the insurance contract liability.

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