

STAFF PAPER

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Project	Insurance contracts		
Paper topic	Presentation and disclosures: Presentation of insurance contracts in the financial statements		
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Introduction

1. This paper reviews the line items presented in the statement of financial position and the statement of comprehensive income for all insurance contracts.

Staff recommendation

2. The staff recommend that for all insurance contracts:
 - (a) in the statement of financial position, an entity should:
 - (i) present all rights and obligations for insurance contracts on a net basis;
 - (ii) be required to present separate line items for insurance contracts and for reinsurance contracts.
 - (b) the general requirements of IAS 1 are sufficient to specify the presentation requirements for the statement of comprehensive income for insurance contracts.

Background: Previous tentative decisions

Statement of financial position

3. The IASB Exposure Draft *Insurance Contracts* (ED) proposed that an insurer would present all the rights and obligations within each portfolio of insurance contracts as a single net liability or single net asset. This presentation would apply under the building block approach and the premium allocation approach. Furthermore the ED required that an insurer present portfolios of insurance contracts in a liability position separately from portfolios of insurance contracts in an asset position.
4. Since the ED, the boards have tentatively decided to present additional line items separately for contracts measured using the building block approach and those measured using the premium allocation approach.
 - (a) For those contracts measured using the building block approach, any unconditional right to any premiums or other consideration should be presented in the statement of financial position as a receivable separately from the insurance contract asset or liability and accounted for in accordance with existing guidance for receivables. The remaining insurance contracts rights and obligations should be presented on a net basis in the statement of financial position.
 - (b) For those contracts measured using the premium allocation approach:
 - (i) all rights and obligations should be presented on a gross basis in the statement of financial position.
 - (ii) the liability for remaining coverage should be presented separately from the liability for incurred claims in the statement of financial position.

Statement of comprehensive income

5. The ED proposed that in the statement of comprehensive income, an insurer should present:
 - (a) summarised margin information for contracts accounted for using the building block approach.

- (b) volume information such as premiums, claims and expenses for contracts accounted for using the premium allocation approach
6. At their October 2011 meeting, the boards tentatively decided that an insurer should present volume information for all insurance contracts. At their October 2012 meeting the boards tentatively decided that premiums and claims presented in an insurer's statement of comprehensive income should be measured by applying an earned premium presentation, whereby premiums are allocated to periods in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and claims are presented when incurred. Such presentation would allow insurers to meaningfully combine the information presented in the statement of comprehensive income for contracts accounted for using the building block approach and those accounted for using the premium allocation approach.
7. This paper compares those previous decisions to the requirements in IAS 1.

Staff analysis

Presentation in the statement of financial position

Net presentation of rights and obligations arising from an insurance contracts

8. As noted in paragraph 3, the ED proposed that an insurer would present all the rights and obligations within each portfolio of insurance contracts as a single net liability or single net asset. This presentation would apply under the building block approach and the premium allocation approach. In the Basis for Conclusion it states that such presentation is consistent with the measurement of an insurance contracts asset or liability based on the package of cash inflows and cash outflows.
9. However, as noted in paragraph 4, since the ED the boards made a number of decisions about different presentation approaches in the statement of financial position for contracts accounted for using the building block approach and those accounted for using the premium allocation approach. The staff believe that those

decisions reflected the boards' working assumption at that time that there would be different presentation approaches in the statement of comprehensive income for contracts accounted for using the building block approach and those accounted for using the premium allocation approach. The boards felt that such different presentation approaches would more accurately present the link between the movement in the insurance contract liability and the line items to be presented in the statement of comprehensive income. For example, separating the unconditional right to receive premiums in the statement of financial position is consistent with the 'premiums due' presentation that the IASB has since rejected in the October 2012 meeting.

10. In the staff's view presenting components of the net liability as separate liabilities in the statement of financial position suggests that those liabilities are different and are not related to each other. Although disaggregated information about the net insurance contract liability could be useful as a disclosure (as discussed in agenda paper 3C *Presentation and disclosures: Disclosures relating to participating contracts, earned premium presentation and transition*), misleading information might be provided by showing items that are not standalone, distinct liabilities as separate line items in the statement of financial position. In particular, showing the unconditional right to receive premiums separately from other components of the liability could be misleading if that asset were not measured as a standalone asset but rather would be measured together with the liability. For example, such an asset would not be subject to impairment as other assets but would rather be measured on an expected basis together with other insurance expected cash flows.
11. Consequently, the staff recommend that insurer should be required to present in the statement of financial position all rights and obligations arising from an insurance contract on a net basis. This recommendation would confirm the presentation approach proposed by the ED.

Line items to be presented in the statement of financial position

12. IAS 1 requires entities:

- (a) to present separately specified line items in the statement of financial position.
- (b) to present current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity. IAS 1 further states that for some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current /non-current presentation if the entity does not supply goods and services within a clearly identifiable operating cycle.
- (c) to disclose the amount to be recovered or settled after more than twelve months for each asset and liability line item, if this is not presented in the statement of financial position. IAS 1 states that this information could be provided in the maturity analysis, which is already required in the disclosures package for insurance contracts set out in agenda paper 3A *Presentation and disclosures: Proposed drafting*.

13. The specified line items to be presented in the statement of financial position (paragraph 54 in IAS 1) do not include insurance contracts or reinsurance contracts. However, the staff believe that insurance and reinsurance contracts are sufficiently distinct to warrant separate presentation of other assets and liabilities an entity may hold (eg inventories, intangibles, property, plant and equipment, etc) in the statement of financial position. Therefore the staff recommend that the IASB modify the list of minimum specified line items in paragraph 54 of IAS 1 to add insurance contracts and, separately, reinsurance contracts.

Question 1: Presentation in the statement of financial position

Does the IASB agree that in the statement of financial position an entity should:

- a. present all rights and obligations arising from an insurance contract on a net basis?
- b. be required to present separate line items for insurance contracts and for reinsurance contracts?

Presentation in the statement of comprehensive income

14. The ED proposed to require presentation of the following line items in the statement of comprehensive income for contracts accounted for using the premium allocation approach:
- (a) Premiums revenue;
 - (b) Claims incurred;
 - (c) Expenses incurred;
 - (d) Amortisation of acquisition costs; and
 - (e) Changes in the additional liability for onerous contracts¹.
15. As noted in paragraph 6, the IASB's decision on presentation taken in October 2012 meeting would allow the board to align the presentation requirements for contracts accounted for using the building block approach and contracts accounted for using the premium allocation approach. In addition, the IASB has previously indicated a preference for aligning the presentation format for insurance contracts with that for other industries. Accordingly, the staff considered whether the requirements in IAS 1 that apply to all other industries would also be sufficient to specify the presentation format for insurance contracts. If the IASB did not create more specific requirements for presentation in the insurance contracts standard, the requirements of IAS 1 would apply by default.

¹ For contracts accounted for using the building block approach, the changes in the additional liability line refers not only to contracts that are onerous but rather to all situations in which the residual margin does not absorb changes in estimates and consequently an additional liability is created. For example this could occur as a consequence of an increase in the risk adjustment.

16. Compared to the line items described in paragraph 14, IAS 1 requires that an entity present a line item only for revenue. It also requires information in addition to the fairly limited line items it prescribes, as follows:
- (a) IAS 1 requires an entity to present any additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.
 - (b) When items of income or expense are material, IAS 1 requires an entity to disclose their nature and amount separately in the statement(s) of profit or loss and other comprehensive income or in the notes.
17. In the staff's view, those requirements would be sufficient to specify the presentation requirements for the statement of comprehensive income for entities with insurance contracts. Applying IAS 1, all entities that issue insurance contracts would be required to provide line items and disclosures about all material items that would be relevant to understanding the entity's financial performance.

Question 2: Presentation in the statement of comprehensive income

Does the IASB agree that the general requirements of IAS 1 are sufficient to specify the presentation requirements for the statement of comprehensive income for insurance contracts?

18. The staff note that some may question why the staff do not propose a separate line item for acquisition costs. As noted in previous staff papers, users of financial statements are interested in acquisition costs primarily to assess the amount of expected acquisition costs in relation to contracts written in the period (rather than the amount of acquisition costs amortised for the period). The staff think that the information about acquisition costs that users find useful would be more clearly presented in the recommended disclosure of expected acquisition costs in relation to contracts written in the period that we propose in agenda paper 3C. A requirement to show acquisition costs as a line item in the statement of comprehensive income would provide information only about the amount of

acquisition costs amortised in the period. Therefore the staff do not believe that there is a need to separately identify acquisition costs in the statement of comprehensive income.