

# International Financial Reporting Standards



## Insurance contracts

ASAF meeting, March 2014  
Agenda Paper 1A

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

# Today's topics

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- The story so far
- Priorities for project completion
- Seeking ASAF views on how the IASB might respond to feedback:
  - Use of other comprehensive income
  - Unlocking the contractual service margin
  - Insurance contracts revenue
- Next steps

# The story so far

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- Exposure Draft published 25 June 2013
- Comment letter deadline 25 October 2013
- 194 comment letters, 186 outreach meetings, including discussion forums in 18 countries
- Comment letter summaries discussed by IASB and FASB in January 2014

# Summary of IASB feedback

- Broad support for finalising a standard based on current measurement of the insurance contract:
  - The standard is needed and the need is urgent
- Convergence not essential but a (very) nice-to-have:
  - It should not come at the expense of further delay to the new Standard
- Widespread agreement with direction of proposals relating to unlocking the contractual service margin and transition
- Opposition to
  - Complexity from mirroring
  - Mismatches from mandatory OCI
  - Insurance contract revenue
- Limited discussion of other issues

# Priorities for Redeliberations

- Address the critical concerns about complexity and mismatches relating to other comprehensive income and participating contracts
- Consider the extent to which the proposals for transition and unlocking the contractual service margin can be further simplified, clarified and refined
- Assess the benefits of the proposals for insurance contracts revenue against the costs of providing the information
- Determine which, if any, of the other issues raised to redeliberate

# Use of other comprehensive income

(see IASB January paper 2A, paragraphs 76-105)

- Feedback generally supports the use of OCI to present the effect of changes in discount rates in some circumstances
- Support for rationale:
  - Useful to segregate underwriting results from investing results
  - Both cost and current information is useful
- However, concerns about:
  - Additional complexity
  - Accounting mismatches when assets are not at FVOCI
  - Extent of accounting mismatches obscure economic mismatches

# How we might respond to feedback received (see IASB January paper 2A, paragraphs 97-99)

- If the Board agrees that there are circumstances in which entities that issue insurance contracts should be permitted to present the effects of changes in discount rates in P&L, then how should we specify those circumstances:
  - What should be the basis for making a selection between presenting changes in P&L vs OCI?
  - Should P&L or OCI be the default or ‘catch-all’ category?
  - What unit of account should be used for making a selection between presenting changes in P&L vs OCI (eg contract, portfolio, entity)?
  - Should entities have the ability to change between recognising the effect of changes in discount rates in P&L and OCI?

# Unlocking the contractual service margin

(see IASB January paper 2A, paragraphs 10-31)

- Feedback generally supports unlocking the contractual service margin, with suggestions for refinement
- Support for rationale:
  - Recognises the unearned profit relating to future services in the period the services are provided
  - Increases consistency between CSM at day 1 and subsequently
- However, concerns about:
  - No change to the measurement of the liability to reflect most recent changes in estimates
  - Can be complex to understand movements in the CSM



# How we might respond to feedback received

- Should favourable changes in estimates that arise after losses were previously recognised in profit or loss be recognised in profit or loss to the extent that they reverse those losses? (see IASB January paper 2A, paragraphs 21-24)
- Should changes in the risk adjustment adjust the contractual service margin, subject to the condition that the contractual service margin should not be negative? (see IASB January paper 2A paragraphs 17-20)

We plan to consider implications for the CSM of participating contracts at a future date

# Insurance contract revenue

(see IASB January paper 2A, paragraphs 56-75)

- Feedback shows many are unconvinced that the benefits of information about insurance contracts revenue and expenses would outweigh the costs of providing the information
- Support for rationale:
  - Reduces the ‘specialness’ of insurance contracts accounting
  - Increased representation faithfulness of the extent to which deposits are embedded in insurance contracts
- However, concerns about:
  - Introduction of a new measure that is not currently understood
  - Additional complexity
  - Some consider deposits to be integrated with the service in an insurance contract

# How we might respond to feedback received

- If the Board does not require entities to present insurance contracts revenue and expense in profit or loss then:
  - Should the Board prohibit the presentation of premiums and expenses included in the measurement of the insurance contract (as in the 2010 ED)?
  - Should the Board retain an option that entities could present insurance contracts revenue and expense?
  - Should the Board apply the same requirements to contracts accounted for using the premium allocation approach and those accounted for using the building block approach?

- March 2014: IASB and FASB joint meeting
  - Use of other comprehensive income
  - Unlocking the contractual service margin
- April 2014:
  - Discussion of insurance contracts revenue
  - Consider approach to issues raised in comment letters that were not subject of targeted questions