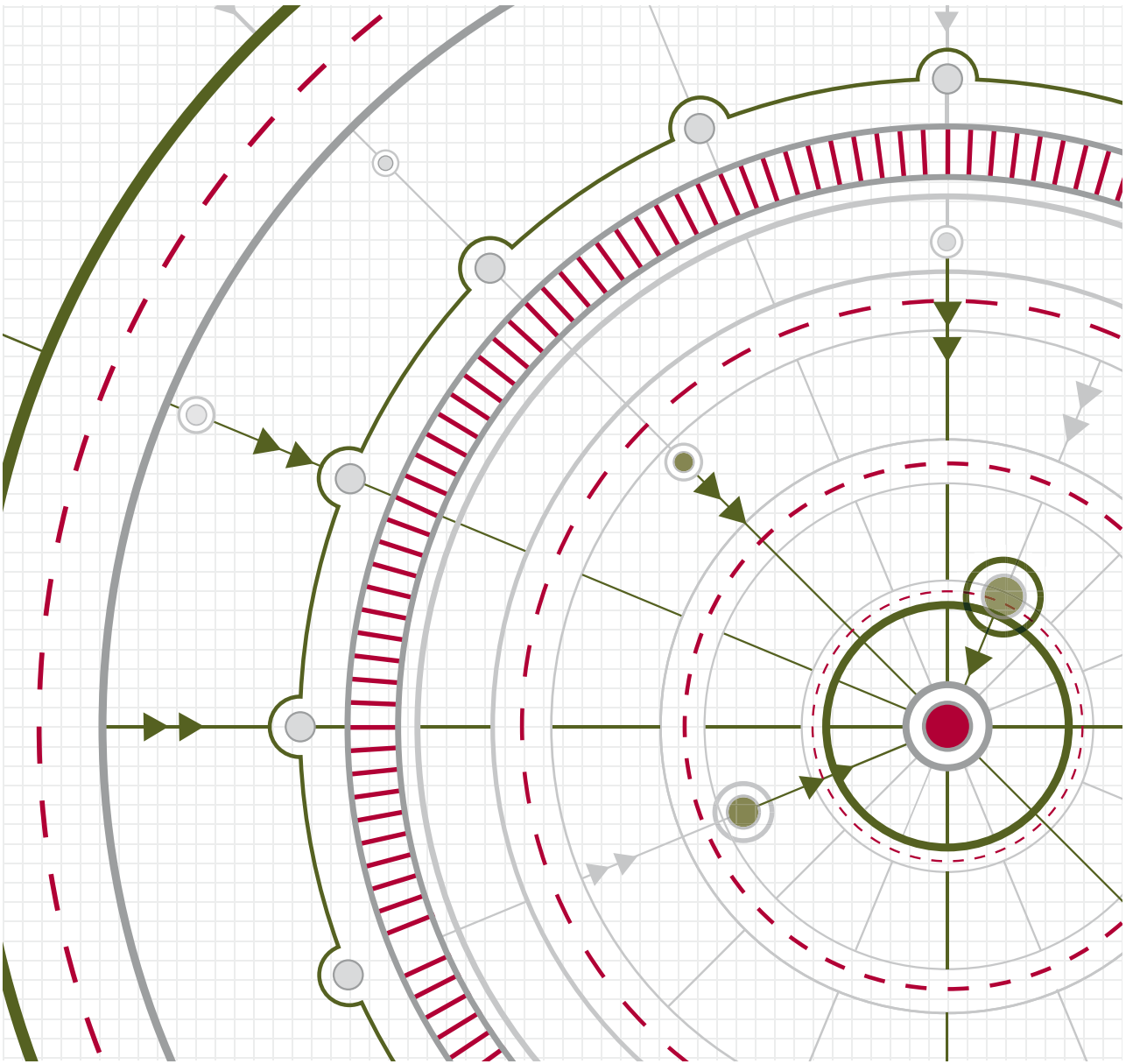


Monday 28 and Tuesday 29 September 2015
The Grange City Hotel (London, UK)

Meeting documentation: Insurance Contracts

2015 World Standard-setters Meeting



World Standard-setters Meeting

Monday 28 and Tuesday 29 September 2015

Education session:
Insurance Contracts

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IASB

International Financial Reporting Standards



Insurance Contracts Project Overview

August 2015

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International Financial Reporting Standards

Why?

The need for change

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Need for a global insurance standard

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IFRS 4 Insurance Contracts is an interim Standard

- IFRS 4 permits continuation of a wide variety of diverse practice
- IFRS 4 includes a temporary exemption from the general requirement that accounting policies should be relevant and reliable


IFRS 4 does not provide transparent information about the effect of insurance contracts on financial statements

- The new standard will provide transparent information about:
 - The effect of insurance contracts on financial performance
 - The way an entity makes profits or losses through underwriting activity and investing premiums from customers
 - The nature and extent of risks from insurance contracts

Existing accounting makes comparisons difficult between products, companies and across jurisdictions.

- The new standard will replace the huge variety of accounting treatments that depend on type of contract and type of company that issues the contracts
- The new standard will make it easier to make comparisons between insurance contracts and other types of contracts

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How the IASB's new standard will improve accounting for insurance contracts

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Existing issues	How our proposals improve accounting
Variety of accounting treatments depending on type of contract and type of company that issues the contracts	Consistent accounting for all insurance contracts by all companies (not just insurance companies)
Estimates for long duration contracts not updated	Estimates updated to reflect current market-based information
Discount rate based on estimates of investment returns does not reflect economic risks of insurance contract	Discount rate reflects characteristics of the cash flows of the contract
Lack of discounting for measurement of some contracts	Measurement of insurance contract reflects discounting where significant
Little information about economic value of embedded options and guarantees	Measurement reflects information about full range of possible outcomes

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How?

Project history and consultation

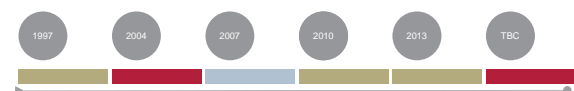
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Project history

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Year	Key Event
1997	IASC starts project on insurance contracts
2004	March 2004 IFRS 4 Insurance contracts Phase I completed Interim standard on insurance contracts issued Mid-2004 IASB takes up Phase II Insurance Working Group formed
2007	May 2007 Discussion paper Preliminary views on Insurance Contracts 162 comment letters received
2010	July 2010 Exposure Draft Insurance Contracts 253 comment letters received
2013	June 2013 Exposure Draft Insurance Contracts 194 comment letters received
TBC	After 2015 Earliest expected publication IFRS x Insurance contracts

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Extensive consultation

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- Consultation documents issued
 - 2007 Discussion Paper *Preliminary Views on Insurance Contracts*
 - 2010 Exposure Draft *Insurance Contracts*
 - 2013 Exposure Draft *Insurance Contracts*
- Extensive outreach with investors, analysts, preparers, regulators, accounting firms and standard-setters, in all regions with significant insurance industry
- Three rounds of field work focussed on assessing operability of the proposals

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What?

The IASB's proposals

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An overview of accounting model for insurance contracts

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- Slide 10 • Identify and recognise the contract
- Slide 11 • Measure the contract at initial recognition
- Slides 12 and 13 • Remeasure in subsequent periods
- Slides 14 and 15 • Present results in financial statements
- Slide 16 • Provide disclosures

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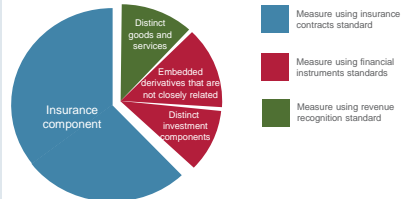


Identify and recognise the contract

10

The defining feature of an insurance contract is the presence of significant insurance risk.

An entity may need to separate some components from an insurance contract



The entity recognises the contract from the beginning of the coverage period, unless the contract is onerous or payments are due before the coverage period begins

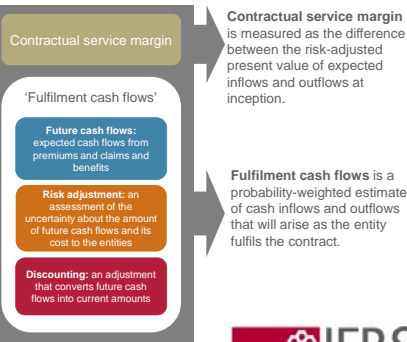
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Measure contract at initial recognition

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The measurement of an insurance contract incorporates all available information, in a way consistent with observable market information.



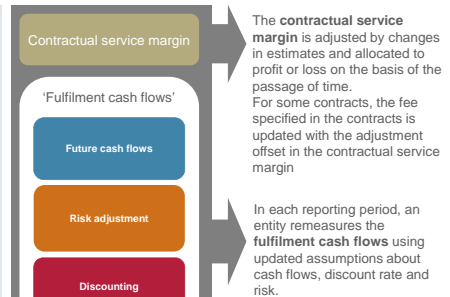
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Remeasure in subsequent periods

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The IASB believes that a current value measure of an insurance contract provides the most useful information about insurance contracts in the balance sheet.



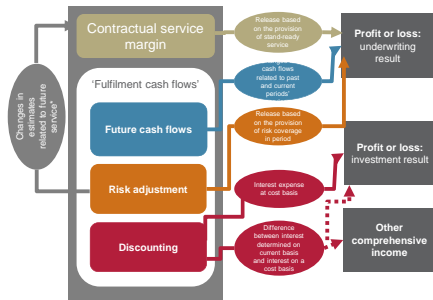
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Remeasure in subsequent periods: Recognition of changes in estimates

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The different types of changes in estimates are recognised in different parts of the financial statements.



*For some contracts, changes in the fee specified in the contracts adjusted against the contractual service margin



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Present results in financial statements

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The presentation format of the statement of comprehensive income will be consistent between insurers and entities that do not issue insurance contracts.

Statement of Comprehensive Income

	20XX	
Insurance contracts revenue	X	Revenue and expense deposits are recognised as earned or incurred
Incurred claims and expenses	(X)	
Operating result	X	
Investment income	X	Interest expense is either current or 'cost view', depending on accounting policy choice
Interest on insurance liability	(X)	
Investment result	X	
Profit or loss	X	
Effect of discount rate changes on insurance liability (optional)	(X)	If interest expense is 'cost view', effect of difference between current and cost rates is presented in OCI
Total comprehensive income	XX	

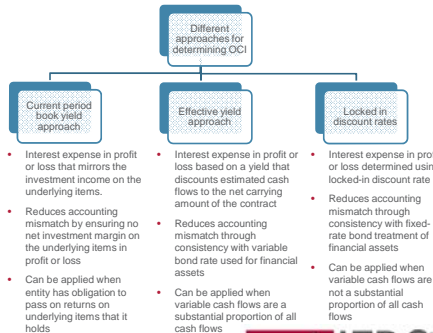


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Present results in financial statements: Interest expense in profit or loss

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Presenting interest expense in profit or loss on a cost basis can reduce accounting mismatches when investment income from related assets is measured on a cost basis. Different methods for measuring interest expense in profit or loss apply in different circumstances.



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Disclosures

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The IASB proposes to extend the existing disclosures in IFRS 4 relating to the risks and amounts reported in the financial statements.



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Other matters

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The new insurance contracts standard provides additional accounting models for different types of contracts.

- A simplified measurement approach for simpler insurance contracts, based on the unearned premium reserve approach used in many jurisdictions
- Accounting requirements for reinsurance contracts an entity holds, based on a similar 'building block approach'
- Accounting requirements for investment contracts with discretionary participating features

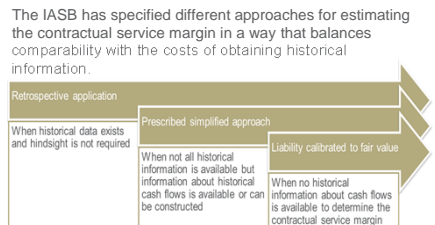


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Applying the new Standard for the first time

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When an entity applies the Standard for the first time, it can measure the fulfilment cash flows directly, but the remaining balance of the contractual service margin requires historical data.



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Responding to feedback

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Common concerns in feedback

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- The IASB has received extensive and detailed feedback on its proposals. Underlying the feedback are three common concerns:
 - Concerns about the effect of changes in current value measurement on profit or loss
 - Concerns about the accounting for contracts with participating features
 - Concerns about complexity of the proposals as a whole
- A summary of how the IASB responded to specific feedback is available on the project website.

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Concerns about the effect of changes in current value measurement

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Some question whether all changes in current value measurement should affect current period performance.

The IASB tentatively decided that some changes in current value measurement should not be recognised in the current period's profit or loss, as follows:

- An entity is required to recognise in profit or loss changes relating to future service in future periods. This is achieved by adjusting the contractual service margin for those changes (so-called 'unlocking').
- An entity is permitted to choose whether to present the effects of interest rate changes in OCI or profit or loss.

The IASB has also permitted the use of a 'top-down' approach to determine the discount rate used to measure insurance contracts. As a result changes in credit spreads are reflected in both asset and liability measurement, thus significantly reducing accounting mismatches caused by credit spread changes.

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Concerns about the accounting for contracts with participating features

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Some were concerned that the proposals in the Exposure Draft would not provide a faithful representation of the source and pattern of these contracts.

The IASB tentatively decided that changes in the estimate of the fee the entity expects to earn from the contract are adjusted in the contractual service margin, provided that:

- The contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items
- The entity expects to pay to the policyholder an amount equal to a substantial share of the returns from the underlying items
- A substantial proportion of the cash flows that the entity expects to pay to the policyholder should be expected to vary with the cash flows from the underlying items

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Concerns about complexity of the proposals as a whole

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Accounting model reflects inherent complexity.

Significant complexity also arises from decisions taken to address feedback.

However, some were concerned about the overall level of complexity.

- The IASB has sought to reduce complexity through the following tentative decisions:
 - Pragmatic scope exceptions to avoid imposing costs with no significant benefits
 - Optional simplified measurement approach for simpler insurance contracts
 - Contracts are not recognised until the coverage period begins, unless onerous
 - Contracts may be aggregated for accounting purposes
 - Limited unbundling of components within insurance contracts
 - Measurement includes renewal cash flows when there is a substantive obligation to provide coverage determined at a portfolio, rather the contract level
 - Simplified transition requirements allow more entities to approximate retrospective application

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When?

Outstanding issues and next steps

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Next steps

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The IASB has substantially completed its deliberations, and expect to conclude deliberations during 2015.

It expects to publish the new Standard after it concludes deliberations.

- The IASB still plans to consider:
 - The use of other comprehensive income for contracts with participating features
 - Implications arising from tentative decisions on participating contracts, including:
 - Whether and how to eliminate accounting mismatches when an entity hedges interest rate risk embedded in contracts with direct participation features
 - Whether and how to improve consistency between the accounting for contracts with direct participation features and other types of insurance contracts
 - Presentation and disclosures

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Interaction with IFRS 9

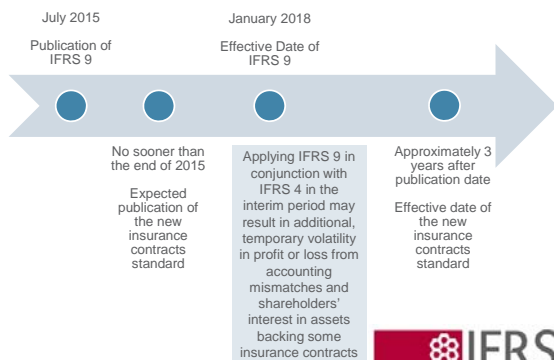
Addressing the consequences of applying IFRS 9 and the new insurance contracts standard on different dates

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Interaction with the first application of the revised IFRS 9 *Financial Instruments*

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Addressing additional temporary volatility in the interim period

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- The IASB expects to enable entities to reduce temporary additional volatility that arises in the interim period through a variety of approaches:
 - Permitting entities to adopt the new insurance contracts standard early
 - Using the flexibility existing in IFRS 4
 - Permitting entities, in some circumstances, to adjust profit or loss and OCI to remove the effect of measuring financial assets at FVPL in accordance with IFRS 9
 - The IASB also plans to consider whether some entities would be permitted to defer the application of IFRS 9
- The IASB has also decided to permit an entity to reassess the business model used for classification of financial assets based on the facts and circumstances at the first application of the insurance contracts Standard

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Next steps

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The IASB is aware of the need to provide certainty for entities applying IFRS 9 as soon as possible.

- The IASB is undertaking outreach with users of financial statements to understand how to provide the most useful information in the circumstances.
- The IASB expects to finalise its proposals relating to the interaction of IFRS 9 and the new insurance contracts Standard at the September 2015 meeting.

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For more information...

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Ask questions or share your views

- Email us: insurancecontracts@ifrs.org
- Comment on our proposals: go.ifrs.org/Exposure-Drafts

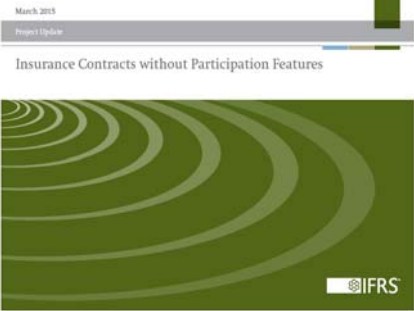
Web resources

- IASB Update
- Project podcasts and webcasts
- Effect of redeliberations on the 2013 ED
- Investor resources
- High level summary of project
- Feedback statement
- Due process summary and due process steps table
- Summary of proposals for contracts without participation features

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Web resource available



Thank you



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NOTES