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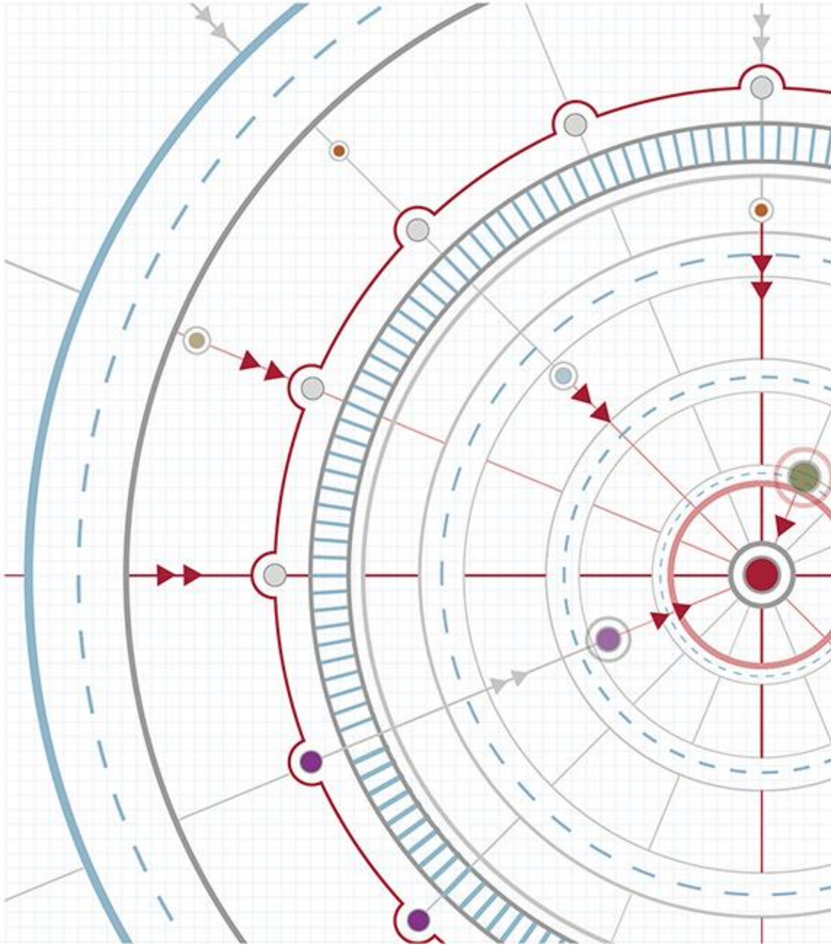

Insurance Contracts

Education session

IFRS Advisory Council, October 2016

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Agenda

- Project status
- The new requirements
- Likely effects of the new Standard

Project status

Timetable and next steps

Project Status

1997	2004	2007	2010	2013	Early 2017
IASC starts project on insurance contracts	**IFRS 4 *Insurance Contracts***	**Discussion paper**	**Exposure Draft**	**Exposure Draft**	**Expected publication IFRS 17** *Replaces IFRS 4*

Now

- Topic-based testing
- Drafting process
- Effective date of the new IFRS Standard will be decided in next few months

Early 2017

- Expected publication of IFRS 17

2020-2021

- IFRS financial statements prepared applying new requirements

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The new requirements

Overview

The new approach

- All insurance contracts measured as the sum of:
  - Fulfilment cash flows (updated at each reporting date)
    - The present value of probability-weighted expected cash flows
    - Plus an explicit risk adjustment for insurance risk
  - Contractual service margin
    - The unearned profit from the contract
- Profit is recognised as insurance services are delivered
- Statement of comprehensive income shows revenue and expenses for insurance services
- Insurance contracts aggregated in groups for measurement

Simplified approach and variable fee approach

- Optional simplified ‘premium-allocation approach’ for short-term contracts
  - Similar outcome but no separate identification of unearned profit
  - Discounting of liability for incurred claims not required if expected to be settled within 12 months
- ‘Variable fee approach’ for ‘contracts with direct participation features’
  - The insurers share of income from underlying items adjusts unearned profit
    - Treated as a “variable fee” for investment management services

Reporting performance

IFRS 4*	New IFRS Standard	Key changes
Premiums	Insurance contract revenue	- Insurance contract revenue excludes deposits - Revenue and expense are recognised as earned or incurred - Insurance finance expense is excluded from insurance service result and is presented (i) fully in P/L or (ii) in P/L and OCI, depending on accounting policy - Written premiums disclosed in the notes
Investment income	Incurred claims and expenses	
Incurred claims and expenses	**Insurance service result**	
Change in insurance contract liabilities	Investment income	
Profit or loss	Insurance finance expense	
	Net financial result	
	Profit or loss	
	Discount rate changes on insurance liability *(optional)*	
	Total comprehensive income	

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

Disclosures

Amounts	Judgements	Risk
• Expected PV of future payments-receipts • Risk and the contractual service margin • New contracts written in the period • Time value of money (insurance finance expense)	• Estimating inputs and methods • Effects of changes in the methods and inputs used • Reason for change, identifying the type of contracts affected	• Nature and extent of risks arising • Extent of mitigation of risks arises from reinsurance and participation • Quantitative data about exposure to credit, market and liquidity risk

Compared to IFRS 4, additional disclosures relating to the risks and amounts reported in the financial statements

Transition reliefs

- If some historical data is not available (ie retrospective application is impracticable):
  - Simplified transition approach
  - Fair value approach
  - Disclosures of amounts determined using simplified transition approach or fair value approach, both on transition and in subsequent periods
- Opportunity to reassess the classifications for financial assets under IFRS 9

Likely effects of the new Standard

Benefits and companies affected

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Benefits of the new requirements

1—Improved comparability

Today wide variety of practices to account for insurance contracts

Issues today	Solution / Benefits
Lack of comparability between insurers • IFRS companies report insurance contracts using different practices **Non-uniform reporting within groups** • Insurance contracts of subsidiaries are consolidated using different practices	• A new framework will replace huge variety of accounting treatments
Inconsistency with other industries • Revenue include deposits • Revenue reported on a cash basis	• Revenue will reflect the services provided, and exclude deposits, like any other industry

Benefits of the new requirements

2—Improved quality of financial information

Today lack of relevant and transparent information

Issues today	Solution / Benefits
Lack of useful information • Use of old or outdated assumptions • Options and guarantees not fully reflected in measurement of insurance contracts • Use of 'expected return on assets held' as discount rate	• Insurance contracts will be measured using current assumptions and will reflect options and guarantees • Discount rate will reflect characteristics of the insurance contract - risks not matched by assets will be reflected in the accounts
Lack of transparency about profitability • Profits recognised on a cash basis • Use of many non-GAAP measures	• The unearned profit will be recognised as the insurance coverage is provided • Additional metrics to evaluate performance will be available

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What does this change mean for short-term contracts?

	New requirements	Expected effects
Short-term contracts / Property and casualty	• Simplified approach available for contracts with coverage period of 1 year or less	• No significant change • Need to consider discounting and apply a risk adjustment for incurred claims

What does this change mean for long-term contracts?

	New requirements	Expected effects
Long-term contracts / Life products	• Single accounting model	• Same approach for all products increasing comparability by companies and by jurisdictions
	• Deposit components excluded from P/L	• Insurance contracts with investment components on the same playing field as investment contracts
	• Options and guarantees are reflected in the measurement of contracts	• Current value of insurance contracts reflected in the accounts
	• Estimates are updated regularly	• Actual financial position of insurers (and risks) reflected in the accounts

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How will companies be affected?

Multi-national groups applying IFRS Standards	→	• Harmonisation of accounting policies
Companies issuing long-term / life insurance contracts	→	• Changes in insurance contract liabilities for companies that did not fully consider (i) options and guarantees (ii) current assumptions • Significant reduction in revenue and expenses for companies that reported premiums as revenue and cash surrenders as expenses
Non-life companies with short-term contacts	→	• No significant change in revenue • Liabilities for claims discounted • Explicit risk adjustment added

For more information…

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  - go.ifrs.org/insurance_contracts
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Web resources

- Series of webinars April-May 2016
- IASB® *Update*
- Investor resources
- Feedback Statement
- Due process summary
- High-level summary of the project
- Project Update about contracts without participation features