Insurance contracts

Field work questionnaire

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Questions for participants

1. Thank you again for taking part in fieldwork for the proposals in the 2013 Exposure Draft *Insurance Contracts* (the '2013 ED'). The following is the information we would like the field work participants to provide in the final submission of results due on the **4 October 2013**. The field work process is explained in the staff paper *Instructions for performing the field work* distributed to field work participants in the first week of July.

General information

Q1. Please provide a short description of your activity/industry:

(a) name of listed group with IFRS consolidated financial statements;

(b) country where your parent company is located;

(c) size of your company, including total balance sheet, total premiums written, total net fees, total insurance reserves and number of employees (please indicate the date of reference); and

(d) main businesses and type of insurance activities that you are involved with and their relevance.

Q2. For each portfolio/product type selected for the field work, please provide a description of the nature and characteristics of the portfolio, ie the general terms of the product, to allow us to analyse your submission in the context of the chosen portfolio.

Q3. In addition, please explain:

(a) the significance of the portfolios selected in relation to the businesses that you are involved with? Please indicate the relevance of the portfolios selected in terms of the total premiums and reserves.

(b) the extent to which the portfolios selected are reinsured? Please indicate which portfolios are affected and the characteristics of the reinsurance contract.

Q4. Taking the portfolio(s) of insurance contracts that you have selected for the field work, please apply the proposed measurement model to account for insurance liabilities and, if possible, the related reinsurance assets. To answer a few of the questions, it will be necessary to apply IFRSs, in particular IFRS 9 *Financial Instruments*, and any related Exposure Drafts that have yet to be finalised, to the relevant assets backing the relevant portfolio(s) of insurance contracts. If you have done so, please provide information about those assets.

Revised proposals

2. Please answer the applicable questions below for each portfolio tested:

   (a) adjusting the contractual service margin (see paragraphs Q7-Q8);

   (b) contracts that require the entity to hold underlying items and specify a link to returns on those underlying items (see paragraphs Q9-Q12);

   (c) presentation of insurance contract revenue and expenses (see paragraphs Q13-Q14);

   (d) interest expense in profit or loss (see paragraphs Q15-Q17); and

   (e) effective date and transition (see paragraphs Q18-Q20).

Adjusting the contractual service margin (paragraphs 30–31, B68, BC62-BC41 and IE9-IE11)

Unless you elect to simplify the measurement of the liability for the remaining coverage using the premium-allocation approach set out in paragraphs 38-40 to eligible contracts, we would like you to apply the revised proposal to adjust the contractual service margin for differences between the current and previous estimates of the present value of future cash flows that relate to future coverage and other future services.

Please note that you would have to estimate retrospectively the contractual service margin as of the initial reporting date of reference considering the new requirements on transition. The questions regarding the transition to the future Standard on insurance contracts are set out in Q18-Q20.

Q7. Please explain the information that you considered in applying the revised proposal. It would be helpful if your explanation includes:[1]

(a) what information was considered in assessing whether the differences in the current and previous estimates of future cash flows should adjust the contractual service margin, and any additional assumptions you made, and why;

(b) the level at which you have adjusted the contractual service margin; and whether this level would be the same for the purposes of measuring the contractual service margin and its allocation to profit or loss; and

(c) any additional information that you would have liked to use, but which would require undue cost or effort to obtain, and why.

Q8. Did you encounter any operational difficulties in adjusting the contractual service margin for differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services? If so, what are they? Based on this, are there any practical suggestions you would make to assist with implementing the proposals that are consistent with the objectives of the 2013 ED?

Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items (paragraphs 33–34, 66, B83-B87, BC42-BC71 and IE23–IE25)

For contracts that require an entity to hold underlying items and specify a link between the payments to the policyholder and the returns on underlying items, we would like you to test the measurement and presentation exception when there is no possibility of economic mismatch. To do this, entities may need to decompose the cash flows of the contract and would:

- Measure the fulfilment cash flows that are expected to vary directly with returns on underlying items by reference to the carrying amount of the underlying items. Changes in these cash flows would be recognised in profit or loss or other comprehensive income on the same basis as the recognition of changes in the value of those underlying items.

[1] Please note that Questions numbered 5-6 are not used.

- Measure the fulfilment cash flows that are not expected to vary directly with returns on underlying items in accordance with the general requirements of the ED (ie using the expected value of the full range of possible outcomes to measure insurance contracts and taking into account risk and the time value of money). Accordingly, please also answer the questions set out in Q7-Q8. For presentation purposes:

- Changes in the cash flows that are expected to vary indirectly with returns on underlying items would be recognised in profit or loss; and

- Changes in the cash flows that are not expected to vary with returns on underlying items would be recognised in profit or loss and other comprehensive income in accordance with the general requirements in the ED. Please also answer the questions set out in Q15-Q17.

Q9. Please explain the information that you considered in applying the revised proposal. It would be helpful if your explanation includes:

(a) what information was considered in (i) assessing whether the contract specifies a link to returns on underlying items and (ii) decomposing the cash flows, and any additional assumptions you made, and why;

(b) any information in the reference data that was not considered relevant to this assessment, and why;

(c) any additional assumptions and information used; and

(d) any additional information that you would have liked to use, but which would require undue cost or effort to obtain, and why.

Q10. Did you find that the proposals for contracts that specify a link to returns on underlying items that the entity is required to hold is sufficiently clear and can be applied consistently? If not, please explain why not?

Q11. Did you encounter any operational difficulties in applying the proposals for contracts that specify a link to returns on underlying items that the entity is required to hold? If so, what are they? Based on this, are there any practical suggestions you would make to assist with implementing the proposals that are consistent with the objectives of the 2013 ED?

Q12. Considering these contracts as a whole (ie considering all of the cash flows arising from the contracts), do the revised proposals result in a faithful representation of the underlying economics and performance of these contracts? Please consider the revised proposals together with the new requirements to adjust the contractual service margin and to segregate the effects of the underwriting performance from the effects of the changes in the discount rates.

Presentation of insurance contract revenue and expenses (paragraphs 56–59, B88-B91, BC73-BC116 and IE12-IE18)

We would like you to apply the revised proposal to present revenue and expenses in profit or loss for all insurance contracts. The proposals require that an entity shall present insurance contract revenue that depicts the transfer of promised services arising from the insurance contract in an amount to which the entity expects to be entitled in exchange for those services.

The proposals also require that an entity excludes from insurance contract revenue and incurred claims presented in the statement of profit or loss and other comprehensive income any investment components, defined as amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

Q13. Please explain the information that you considered in applying the revised proposal. It would be helpful if your explanation includes:

(a) what information was considered in (i) determining the revenue and expenses and (ii) excluding the investment components from the revenue and expenses recognised;

(b) any information in the reference data that was not considered relevant to this assessment, and why;

(c) any additional assumptions and information used; and

(d) any additional information that you would have liked to use, but which would require undue cost or effort to obtain, and why.

Q14. Did you encounter any operational difficulties in applying the proposals on recognising insurance contract revenue and expenses? If so, what are they? Based on this, are there any practical suggestions you would make to assist with implementing the proposals that are consistent with the objectives of the 2013 ED?

Interest expense in profit or loss (paragraphs 60–68 and BC117-BC159)

We would like you to apply the revised proposal to segregate the effects of the underwriting performance from the effects of the changes in the discount rates that unwind over time. In particular, entities would recognise:

- In profit or loss interest expense determined on an amortised cost basis; and

- In other comprehensive income the difference between the carrying amount of the insurance contract measured using the discount rates that were used to determine that interest expense, and the carrying amount of the insurance contract measured using the current discount rates.

Q15. Please explain the information that you considered in applying the revised proposal. It would be helpful if your explanation includes:

(a) for which portfolios of contracts and for which components you applied the revised proposal;

(b) any additional assumptions you made, and why;

(c) any additional information that you would have liked to use, but which would require undue cost or effort to obtain, and why; and

(d) what information was considered in assessing whether the discount rates used to determine interest expense should be updated.

Q16. Did you encounter any operational difficulties in segregating the effects of the underwriting performance from the effects of the changes in the discount rates that unwind over time? If so, what are they? Based on this, are there any practical suggestions you would make to assist with implementing the proposals that are consistent with the objectives of the 2013 ED?

Q17. How does the presentation of interest expense in profit or loss and changes in the discount rate in OCI interact with IFRS 9? Please describe whether, and which, financial assets related to this contracts would qualify for FVOCI and the overall effects in profit or loss. Are there any suggestions that you would like to make that are consistent with the objectives of the 2013 ED?

Effective date and transition (paragraphs C1–C13, BC160-BC191 and IE26–IE29)

We would like you to apply the revised proposal to transition. The revised proposals require that an entity should apply the [draft] Standard retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors *when it is practicable. When it would not be practicable, the revised proposals require a modified retrospective application, which simplifies the transition requirements while maximising the use of objective information.*

Q18. Please explain:

(a) any issues in applying the transitional proposals discussed in the ED, including the impact on the statements of financial position and performance of applying those proposals;

(b) what is the earliest date at which you are able to apply the fully retrospective transitional approach;

(c) what information/factors contributed most significantly to determining whether retrospective application is impracticable; and

(d) what method you have used to estimate the contractual service margin and to determine the discount rate for insurance contracts issued before that earliest practical date.

Q19. Did you find that the modified retrospective proposal reduces the cost of retrospective implementation of the 2013 ED, and in which cases? If not, please explain why not?

Q20. Would you expect any reporting or operational issues if the effective date of IFRS 9 and the future standard on insurance contracts are not aligned? If so, please explain why and whether the IASB's proposal to allow a number of reclassifications/redesignations of financial assets on transition would mitigate those operational issues.

Costs and benefits when compared to the 2010 ED

We would like to understand how the costs and benefits of the revised proposals compare to the original proposals of the 2010 Exposure Draft Insurance Contracts *(the 2010 ED). Please provide the following information particularly if you previously participated in an IASB field test or your company tested the proposals included in the 2010 ED.*

Costs:

The Basis for Conclusions of the ED describes the costs that arise both on initial application and on an on-going basis to be incurred in implementing the new proposals.

For each revised proposal tested, please indicate (i) the order of magnitude for those costs, (ii) their nature (eg adjusting IT systems, adjusting the operating model for actuarial, finance and risk functions, for educating and training of staff and for investor relationships and communication) and which part of your products will be most affected by the new proposals, and (iii) whether the costs of complying with the new requirements are justified by the benefits that will be provided by the information.

Benefits:

For each revised proposal tested, please indicate the benefits that you anticipate from adopting the IASB's revised proposals on insurance contracts.

	High/Medium/ Low costs	Nature of costs and main business affected	High/Medium/ Low benefits	Nature of the benefits	Will expected benefits outweigh costs to be incurred?
Adjusting the contractual service margin (BC35) compared to recognising those changes in profit or loss when the changes occur					
Measurement of contracts that require the entity to hold underlying items and specify a link to returns on those underlying items (BC56-BC62) compared to measuring those contracts under the general approach					
Presentation of insurance contract revenue and expenses (B99-BC100) compared to the summarised margin approach					
Presentation of interest expense in profit or loss (BC127-BC132) compared to presenting all changes in the insurance liabilities arising from changes in discount rates in profit or loss					
Effective date and transition (BC164-BC173) compared to resetting the contractual service margin to zero.					

Q21. Please explain how the simplifying assumptions chosen have impacted the assessment above, if any?

Q22. Considering the proposed 2013ED as a whole, does the [draft] Standard improve the transparency of the effects of insurance contracts and reduce diversity in the accounting for insurance contracts compared to the 2010 ED? Please consider whether the resulting information that your company will present to shareholders will give them a faithful representation of the business that will be relevant for making economic decisions.