International Financial Reporting Standards

Insurance Contracts Standard

Subsequent measurement of insurance contracts

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Topics

1. The need for change and the history of the project
2. What is an insurance contract
3. Initial measurement of insurance contracts
4. Subsequent measurement of insurance contracts
5. Modifications to General model: variable fee contracts
6. Other modifications to the General model
7. Presentation and disclosure
8. Applying the standard for the first time

Remeasure in subsequent periods

IASB believes a current value measure of an insurance contract provides the most useful information about insurance contracts in the statement of financial position.

Contractual service margin

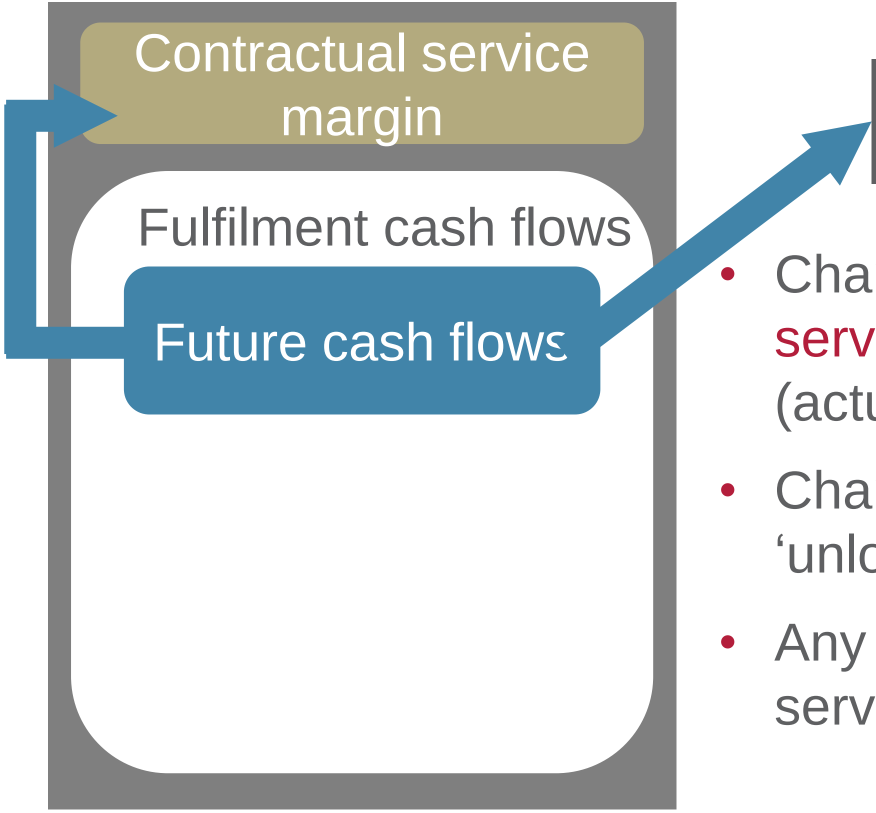
'Fulfilment cash flows'

Future cash flows

Discounting

Risk adjustment

Remeasure in subsequent periods
Recognition of changes in estimates



Profit or loss: underwriting result

- Changes related to past and current services reflected in profit and loss (actual)
- Changes related to futures services 'unlock CSM' (estimates)
- Any changes not related to future services reflected in profit and loss

Remeasure in subsequent periods
Recognition of changes in estimates

- Unwind of the discount (time value of money) in profit or loss
- Option to present the effect of change in rate on fulfilment cash flows in either:
  - OCI, or
  - Profit or loss

Fulfilment cash flows

Discounting

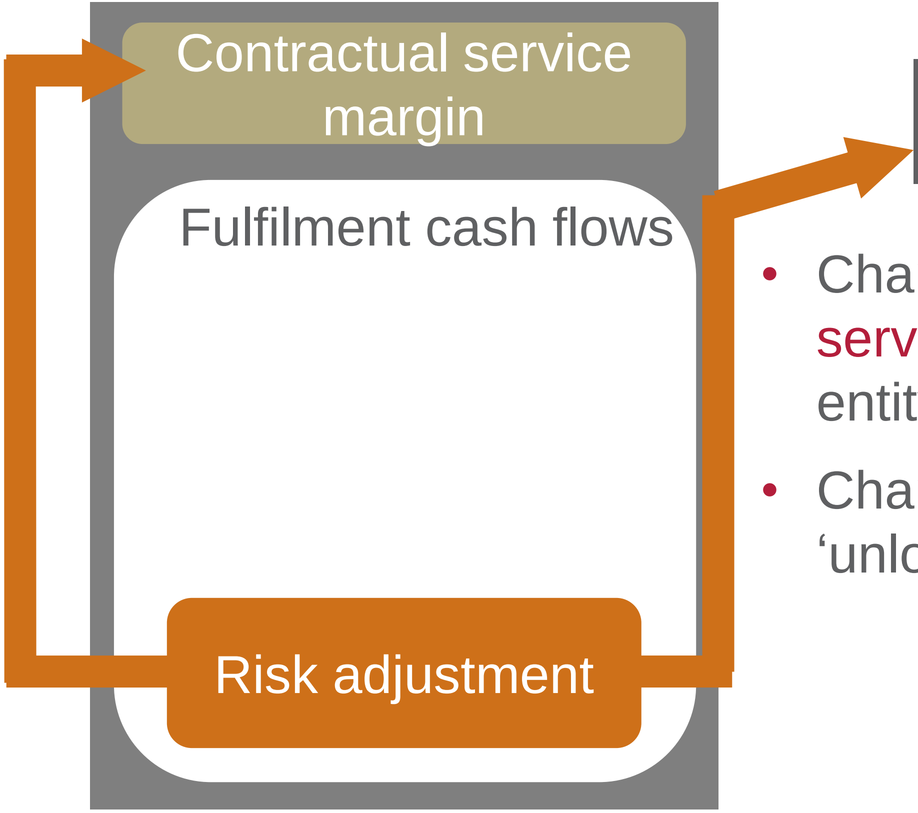
Profit or loss: investment result

Other comprehensive income

Remeasure in subsequent periods
Options and guarantees

- Updated value of the insurance contract, includes options and guarantees, consistent with market information
- Standard does not define ‘options and guarantees’, consequently changes in value of options and guarantees treated the same as other changes in cash flows and discount rates

Remeasure in subsequent periods
Recognition of changes in estimates



Profit or loss: underwriting result

- Changes related to past and current services reflected in profit and loss as entity is ‘released from risk’
- Changes related to futures services ‘unlock CSM’

Remeasure in subsequent periods
Recognition of changes in estimates

Contractual service margin

Profit or loss: underwriting result

- Recognise CSM in profit or loss as entity provides coverage:
  - Passage of time
  - Size and duration of contracts in force

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Remeasure in subsequent periods
Accretion of CSM

- At inception, CSM is determined as a discounted amount
- Over time, the effect of that discounting should be reversed
- The unwinding of the discounting recognised at inception is referred to as accretion

BUT

- CSM is not a cash flow in itself
- Consequently, board has concluded that it
  - cannot be remeasured, and
  - discount rate should be the rate determined at inception

Remeasure in subsequent periods
Allocation of contractual service margin

- Objective: allocate remaining CSM in profit or loss over remaining coverage period in a systematic way that best reflects services to be provided
- Can be achieved by grouping contracts
- Is deemed to be achieved by grouping contracts that:
    - Have cash flows entity expects will respond in similar ways to key drivers of risk in terms of amount and timing
    - Had similar expected profitability
    - Entity adjusts the allocation to reflect expected duration and size of remaining contracts

Remeasure in subsequent periods
Need to identify effect of discretion

- Changes in fulfilment cash flows relating to future services adjust CSM*
- Changes in FCF arising from changes in market variables are recognised in SCI
- Discretionary changes by the entity relate to future service, so adjust the CSM (measured at the locked-in rate)
- Require entity to specify what it regards as non-discretionary (effectively the same as 2013 ED proposals which did not include requirements on how to make the distinction)

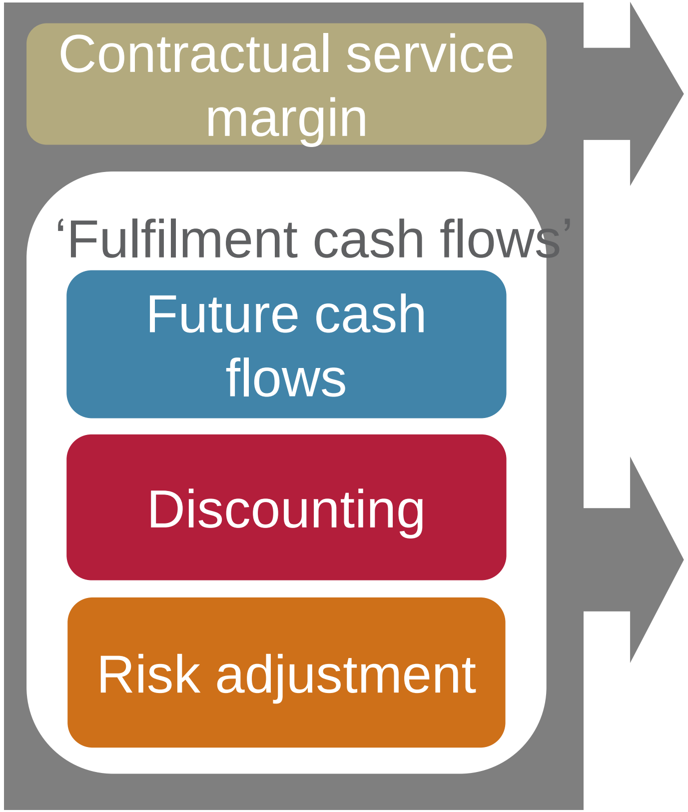
*Change measured at locked-in rate adjusts the CSM, difference between the amount measured at the locked-in rate and the amount measured at the current rate, recognise in SCI

Example
Need to identify effect of discretion

- Entity internally specifies return on an identified pool of assets as promised return on the project
- During most recent period, pool of assets returns 12%, ahead of expectation of 7%
- Entity decides to declare a return to policyholders of 8%
- Change in the return of assets (12%-7%) impacts the discount rate used to measure liability (effect to SCI)
- Exercise of discretion (decision to pay rate 4% less then specified) affects future service and is taken to CSM

The general model

IASB believes **a current value measure** of an insurance contract **provides the most useful information** about insurance contracts in the statement of financial position.

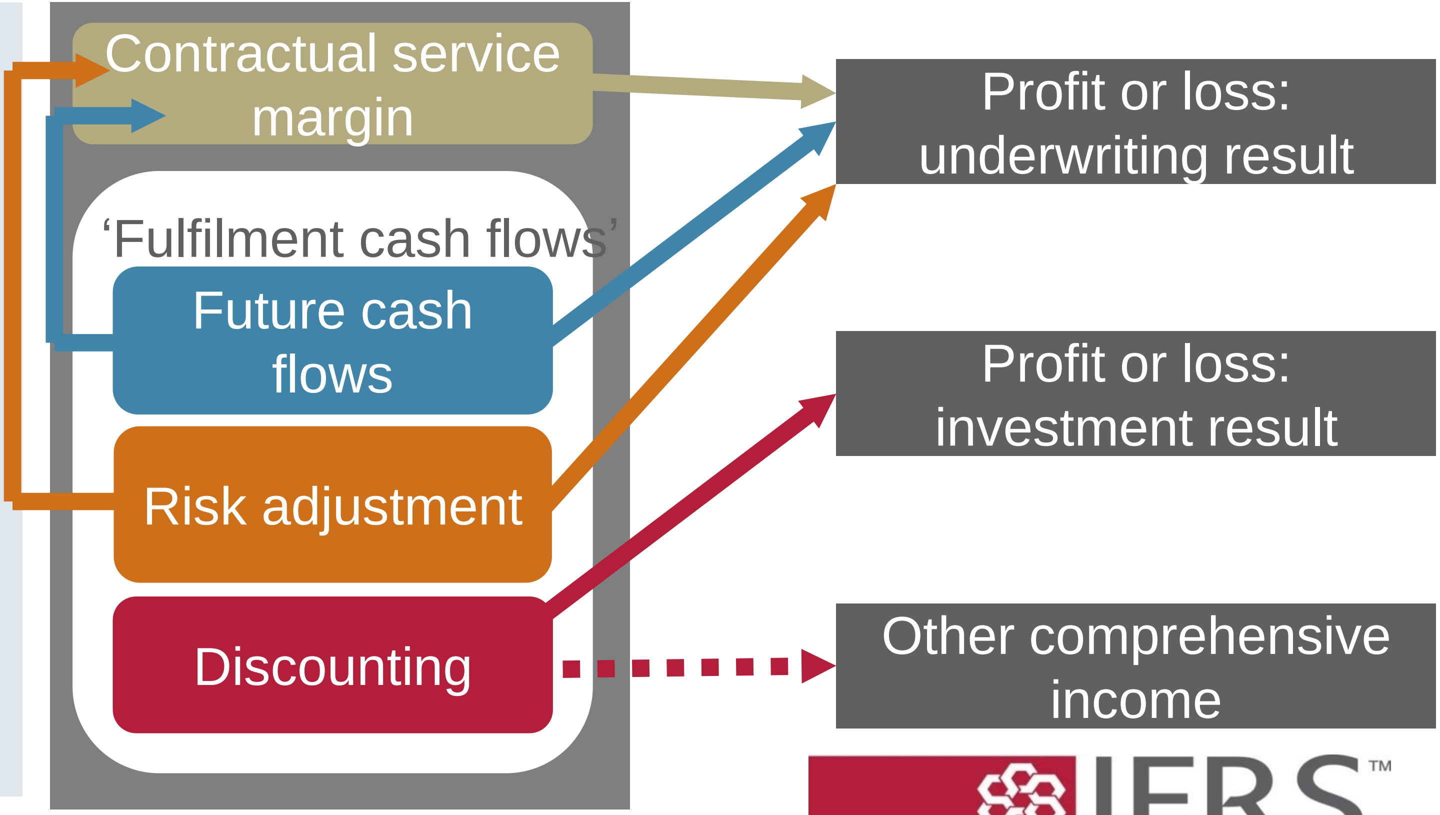


CSM is adjusted by changes in estimates and is allocated to profit or loss

In each reporting period, an entity remeasures the **fulfilment cash flows** using updated assumptions about cash flows, discount rate and risk.

The general model
Recognition of changes in estimates

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



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