**Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)**

The Committee received requests about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary.

In the fact pattern described in the requests, an intermediary acts as a link between an insurer and a policyholder to arrange an insurance contract between them. The policyholder has paid in cash the premiums to the intermediary, but the insurer has not yet received in cash the premiums from the intermediary. The agreement between the insurer and the intermediary allows the intermediary to pay the premiums to the insurer at a later date.

When the policyholder paid the premiums to the intermediary, the policyholder discharged its obligation under the insurance contract and the insurer is obliged to provide insurance contract services to the policyholder. If the intermediary fails to pay the premiums to the insurer, the insurer does not have the right to recover the premiums from the policyholder, or to cancel the insurance contract.

The requests asked whether, in the submitted fact pattern, the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 or are a separate financial asset applying IFRS 9. The requests set out two views.

Under the first view (View 1), the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. Applying View 1, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, includes them in the measurement of the group of insurance contracts until recovered in cash; and
b. for a group of contracts to which the premium allocation approach applies, the insurer does not increase the liability for remaining coverage—it does so only when it recovers the premiums in cash from the intermediary.

Under the second view (View 2), because the payment by the policyholder discharges its obligation under the insurance contract, the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary. The insurer therefore determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but, instead, a separate financial asset. Applying View 2, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer removes the premiums from the measurement of the group of insurance contracts and, applying IFRS 9, recognises a separate financial asset; and
b. for a group of contracts to which the premium allocation approach applies, the insurer increases the liability for remaining coverage and, applying IFRS 9, recognises a separate financial asset.

**Applying the requirements in IFRS Accounting Standards**

The Committee observed that IFRS 17 is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract.

Paragraph 33 of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts an estimate of all the future cash flows within the boundary of each contract in the group. Paragraph B65 explains that cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including premiums from a policyholder.

The Committee observed that paragraph B65 of IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and premiums to be collected through an intermediary. In applying IFRS 17, premiums from a policyholder collected through an intermediary are therefore included in the measurement of a group of insurance contracts.

Paragraph 34 of IFRS 17 specifies that cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services.

In the fact pattern described in the requests, the insurer has not recovered the premiums in cash, but the policyholder has discharged its obligation under the insurance contract. The Committee observed that IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash.

Therefore, the Committee observed that, in accounting for premiums receivable from an intermediary when payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer develops and applies an accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine when cash flows are removed from the measurement of a group of insurance contracts. The insurer could determine that cash flows are removed when the cash flows are recovered or settled in cash (View 1), or when the policyholder's obligation under the insurance contract is discharged (View 2).

IFRS 17 and IFRS 9 deal differently with the measurement, presentation and disclosure of expected credit losses from premiums receivable from an intermediary. The Committee considered that, depending on which view (View 1 or View 2) an insurer applies, it is required to apply all the measurement and disclosure requirements in the applicable IFRS Accounting Standards. Therefore, an insurer applies either IFRS 17 (including paragraph 131, which requires disclosure of information about the credit risk that arises from contracts within the scope of IFRS 17) or IFRS 9 (and the requirements in IFRS 7 *Financial Instruments: Disclosures*) to premiums receivable from an intermediary.

**Conclusion**

In the light of its analysis, the Committee considered whether to add a standard-setting project on when cash flows are removed from the measurement of a group of insurance contracts to the work plan. The Committee noted that any such project would involve assessing whether changes to the Accounting Standards would have unintended consequences. This assessment may take considerable time and effort to complete because it would involve, among other steps, analysing a broad range of contracts (not only those set out in the fact pattern described in the requests). The Committee observed that the application of either View 1 or View 2 when accounting for premiums paid by a policyholder and receivable from an intermediary would provide users of financial statements with useful information based on the requirements in IFRS 17 or IFRS 9.

Consequently, the Committee concluded that a project would not be sufficiently narrow in scope that the IASB or the Committee could address it in an efficient manner. The Committee therefore decided not to add a standard-setting project to the work plan.