IFRS® Accounting

Staff paper

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Project	**Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)**
Topic	**Initial consideration**
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Purpose of the paper

1. The IFRS Interpretations Committee (Committee) received two submissions about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* to premiums receivable from an intermediary.

2. The purpose of this paper is to ask the Committee whether it agrees with our recommendation to not add a standard-setting project to the work plan but to publish a tentative agenda decision that outlines how an insurer applies the applicable requirements.

Structure of the paper

3. This paper includes:

   (a) summary of the submissions;

   (b) findings from information requests;

   (c) staff analysis and conclusion; and

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(d) staff recommendation of whether to add a standard-setting project to the work plan.

4. This paper includes two appendices:

(a) Appendix A—proposed wording of the tentative agenda decision; and

(b) Appendix B—the two submissions.

Summary of the submissions

5. An intermediary often acts as a link between an insurer and a policyholder to bring about an insurance contract between these two parties. In the submitted fact pattern, a policyholder has paid the premiums to an intermediary when the amounts became due under an insurance contract. At this point, the insurer is legally obliged to provide insurance contract services to the policyholder, even if the intermediary does not pay the premiums to the insurer. At the reporting date, the insurer has not yet received the premiums in cash from the intermediary because the agreement between the insurer and the intermediary allows the intermediary to pay the premiums at a later date.

6. The submitters noted that IFRS 17 requires, except for the premium allocation approach, 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 an insurance contract, including premiums from a policyholder. The submissions ask, when the policyholder pays the premiums to the intermediary, is an insurer required to recognise the premiums receivable from an intermediary as a separate financial asset under IFRS 9 and remove these premiums from the measurement of the group of insurance contracts under IFRS 17.

7. The submissions ask the same question in paragraph 6 for the premium allocation approach. Under this approach an insurer measures an insurance contract using premiums received instead of an estimate of all future premium receipts.[1] If the

[1] Paragraph 55 of IFRS 17 requires an entity to increase the liability for remaining coverage with premiums received.

insurer recognises the premiums receivable from an intermediary as a separate financial asset under IFRS 9, applying the premium allocation approach the insurer would need to treat the premiums as received and increase the liability for remaining coverage.

8. The submissions identify that the treatment affects the presentation of the premiums receivable in the statement of financial position and the timing of the recognition of any loss on the receivable in the statement of profit or loss when an insurer does not expect to recover amounts from an intermediary.

Findings from information requests

9. We sent information requests to members of the Transition Resource Group for IFRS 17 (TRG), from which we received 13 responses. The submissions were also made available on our website. In addition to responses from members of the TRG, we received input from two preparers, an accountancy body and a regulator. All the responses represent informal opinions and do not necessarily reflect the official views of those respondents or their organisations.

10. The information request asked:

    (a) whether it is common for insurance contracts to be sold through an intermediary for which an insurer provides insurance contract services to the policyholders even if it has not received premiums in cash;

    (b) whether the premiums receivable from an intermediary are typically material for an insurer at the end of a reporting period;

    (c) how insurers apply the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary; and

    (d) how insurers apply the requirements in IFRS 17 and IFRS 9 to other cash flows within the boundary of an insurance contract that, after inception of the contract, become due to or from a party other than a policyholder.

Is the fact pattern common?

11. All respondents say it is common in all jurisdictions and for all types of insurance contracts for an intermediary to act as a link between an insurer and a policyholder.

12. Most respondents explain that either an insurance contract or legal requirements in a jurisdiction require an insurer to start providing insurance contract services before it receives premiums in cash. An insurer agrees separate payment terms (for example, 30–90 days) with an intermediary. One respondent says an insurer can be required to start providing the services even if the policyholder has not paid the premiums.

13. A few respondents say the situation in the fact pattern is less common for life insurance contracts because in those situations an insurer must receive the premiums in cash before insurance contract services start. Two respondents say it is not common because legal requirements or an insurer's own policies require a policyholder to pay premiums directly to an insurer.

Are premiums receivable from an intermediary material?

14. Most respondents say the amount of premiums receivable from an intermediary at a reporting date can be substantial. Some respondents say this is true particularly for non-life insurance and reinsurance contracts issued. Under life insurance (and some retail non-life insurance) the amount of premiums receivable is not as substantial because a policyholder pays premiums directly to an insurer or in instalments. Two respondents say the amount of premiums receivable do not build up to a substantial amount because intermediated business is small, or an intermediary transfers the premiums within a few days after they received it.

15. The submissions and our outreach indicated that information about a substantial amount of premiums receivable from an intermediary could reasonably be expected to influence investors' decisions, particularly in situations when an insurer is not able to recover amounts from an intermediary.

How do insurers apply the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary?

16. Six respondents say insurers keep premiums receivable from an intermediary within the measurement of a group of insurance contracts until the insurer receives the premiums in cash.

17. Ten respondents say whether an insurer removes premiums receivable from the measurement of a group of insurance contracts depends on the rights and obligations between the insurer and the intermediary. In the submitted fact pattern, they are of the view that these rights and obligations indicate that the intermediary acts and collects premiums on behalf of the insurer. When a policyholder pays the premiums to an intermediary the policyholder has discharged its obligation under the insurance contract and becomes entitled to the insurance contract services; it is as if the policyholder paid the insurer. The insurer, therefore, recognises the premiums receivable from an intermediary as a separate financial asset under IFRS 9 when the policyholder pays the premiums. The insurer's right to receive cash from the intermediary arise under the separate service contract between the insurer and the intermediary.

18. One respondent says the treatment followed by an insurer depends on the view taken within their jurisdiction. They are aware that different jurisdictions have taken different views.

19. We include more detail about respondents' technical arguments within our analysis.

How do insurers apply the requirements in IFRS 17 and IFRS 9 to other amounts due to or from a party other than the policyholder?

20. Respondents say that a contract between an insurer and an intermediary may require the intermediary to collect premiums from policyholders, deduct its commissions, pay claims to policyholders, and then pay the net amount to an insurer.

21. Ten respondents say insurers *keep within* the measurement of a group of insurance contracts all cash flows within the boundary of an insurance contract (including premiums) that, after the inception of the contract, become due to or from a party other than policyholders. Such receivables or payables are included within the measurement of a group of insurance contract until recovered or settled in cash because these receivables or payables are covered by the scope exclusion in IFRS 9. These respondents do remove cash flows from the measurement of a group of insurance contracts when they are recognised under IFRS Accounting Standards that does not include a scope exclusion for insurance contracts (like IFRS 16 *Leases*, IAS 12 *Income Taxes* or IAS 19 *Employee Benefits*).

22. Five respondents say insurers *remove* from the measurement of a group of insurance contracts all cash flows within the boundary of an insurance contract that, after the inception of the contract, become due to or from a party other than policyholders. They say this treats such cash flows consistently with cash flows within the boundary of an insurance contract that become subject to other IFRS Accounting Standards. They say these cash flows are not covered by the scope exclusion in IFRS 9 because the amounts do not arise under an insurance contract but a separate contract with a party other than a policyholder.

23. Three of the fifteen respondents above identify situations where an insurer treats differently premiums receivable from an intermediary and other cash flows within the boundary of an insurance contract that could be subject to IFRS 9. They say that an insurer could, for example, remove premiums receivable from an intermediary from the measurement of a group of insurance contracts when the policyholder pays the premiums but keep all other cash flows within that measurement until recovered or settled. Supporting their argument is the definition of the liability for incurred claims in Appendix A of IFRS 17 that refers to incurred but unpaid insurance expenses.[2]

[2] Appendix A of IFRS 17 defines the liability for incurred claims as: 'An entity's obligation to…investigate and pay valid claims …and other incurred insurance expenses; and

Their feedback did not discuss cash flows that are subject to IFRS Accounting Standards other than IFRS 9.

Staff analysis and conclusion

24. In considering the question asked in the request, we have considered the order of the relevant IFRS Accounting Standards in which an entity needs to analyse the relevant requirements. Given the scope exclusion in paragraph 2.1(e) of IFRS 9 for 'rights and obligations arising under an insurance contract as defined in IFRS 17', we believe that the starting point for our analysis is IFRS 17 to determine whether any rights or obligations in the scope of IFRS 17 before considering the scope of IFRS 9.

25. This section of the paper covers:

    (a) cash flows within the boundary of an insurance contract;

    (b) removing cash flows from the measurement of a group of insurance contracts under IFRS 17;

    (c) the scope of IFRS 9;

    (d) the amount and timing of credit losses;

    (e) other technical arguments; and

    (f) a summary of our conclusions.

Cash flows in the boundary of an insurance contract

26. All respondents agree (or do not disagree) that IFRS 17 is the starting point to analyse the treatment of the premiums receivable from an intermediary. This Standard requires an insurer to include in the measurement of a group of insurance contracts premiums from a policyholder because these amounts arise from the substantive rights and obligations that establish the boundary of an insurance contract. Respondents refer to:

(a) paragraph 33 of IFRS 17 that 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'.

(b) paragraph 34 that explains the boundary of an insurance contract arises from an insurer's substantive rights and obligations that exist during the reporting period in which the insurer can compel the policyholder to pay the premiums or in which the insurer has a substantive obligation to provide the policyholder with insurance contract services.

(c) paragraph B65 of IFRS 17 that states that cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract. Paragraph B65(a) explicitly identifies premiums from a policyholder, and any additional cash flows that result from those premiums, as cash flows within the boundary of an insurance contract.

(d) paragraph 55, for the premium allocation approach, that requires an insurer to increase the liability for remaining coverage with premiums received.

Staff analysis

27. We also agree that IFRS 17 is the starting point to analyse the treatment of the premiums receivable from an intermediary. Paragraphs 34 and B65(a) of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts premiums from policyholders. Paragraph B65(a) of IFRS 17 does not distinguish between premiums collected directly from a policyholder and premiums collected through an intermediary. Therefore, an insurer's rights to collect premiums from a policyholder through an intermediary start within the measurement of a group of insurance contracts under IFRS 17 because they are cash flows within the boundary of an insurance contract.

28. Therefore, because the premiums from a policyholder start within the measurement of a group of insurance contracts under IFRS 17, we consider next when an insurer removes cash flows from that measurement.

Removing cash flows from the measurement of a group of insurance contracts

29. Respondents have different views about when, in the submitted fact pattern, an insurer removes from the measurement of a group of insurance contracts the premiums already included in that measurement. The submissions set out two views:

    (a) *View 1*—an insurer removes premiums receivable from an intermediary from the measurement of a group of insurance contracts only when the insurer receives the premiums in cash; or

    (b) *View 2*—an insurer removes premiums receivable from the measurement of a group of insurance contracts when the policyholder pays the intermediary in cash. The insurer recognises the premiums receivable from an intermediary as a separate financial asset under IFRS 9.

30. Supporters of View 1 say an insurer is required to keep within the measurement of a group of insurance contracts premiums receivable from an intermediary until the insurer actually receives the premiums in cash because:

    (a) in the submitted fact pattern the premiums held by an intermediary have not been 'actually received' by the insurer. If an insurer applied View 2 when applying paragraph 55 of IFRS 17 (the premium allocation approach), the insurer would contradict a view within Appendix A of Agenda Paper 6 of the May 2018 TRG meeting that says [emphasis added]: ''Premiums, if any, received' as included in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 means premiums actually received at the reporting date. It does not include premiums due or premiums expected...'

    (b) paragraph B65 of IFRS 17 does not distinguish between cash flows from policyholders and from intermediaries; they are all cash flows within the boundary of an insurance contract. As described in paragraph 20, feedback indicated that a contract between an insurer and an intermediary may require the intermediary to collect premiums from policyholders, deduct its commissions, pay claims to policyholders, and then pay the net amount to an

insurer. The expected premiums, commissions and claims are all cash flows within the boundary of an insurance contract. Paragraph B65 does not limit the cash flows within the boundary of an insurance contract to cash flows that arise directly from an insurance contract between an insurer and a policyholder. For example, paragraph B65(f) refers to 'legal and loss-adjusters' fees', and paragraph B65(h) to 'recurring commissions that are expected to be paid to intermediaries…'

(c) paragraph 2.1(e) of IFRS 9 excludes from that Standard all financial instruments (receivables or payables) that arise from the substantive rights and obligations that establish the boundary of an insurance contract. An insurer's right to receive premiums, even from an intermediary, is a substantive right within the boundary of an insurance contract. All premiums receivable are excluded from the scope of IFRS 9. Additionally, the financial instruments in the submitted fact pattern (premiums receivable from an intermediary) do not fall under any of the specific scope inclusions listed in sub-paragraphs 2.1(e)(i)–(v) of IFRS 9.[3]

31. Supporters of View 2 say whether an insurer recognises premiums receivable from an intermediary as a separate financial asset under IFRS 9 depends on the rights and obligations between the insurer and the intermediary. They noted that in the submitted fact pattern, once a policyholder has paid the premiums in cash, the insurer is legally obliged to provide insurance contract services to the policyholder, even if the intermediary does not pay the premiums to the insurer. The policyholder has discharged its obligation under the insurance contract and is entitled to the insurance contract services; it is as if the policyholder paid the insurer. The insurer's right to receive premiums from an intermediary is therefore a separate right that does not arise under the insurance contract with the policyholder but instead arises from the service

[3] Paragraphs 2.1(e)(i)–(v) of IFRS 9 include within the scope of IFRS 9 financial instruments that would otherwise be excluded from that Standard because they represent rights and obligations that arise under an insurance contract.

agreement between the insurer and the intermediary. The premiums receivable represents a separate financial asset within the scope of IFRS 9.[4]

32. Supporters of View 2 contrast the fact pattern in the submissions to a situation when, in the event of default by an intermediary, an insurer can either enforce payment of the premiums against the policyholder or cancel the insurance contract. In this situation, these respondents would apply View 1: the premiums receivable from an intermediary remain within the measurement of a group of insurance contracts because the policyholder has not discharged its obligation so that it has become unconditionally entitled to the insurance contract services. In their view, the premiums still arise under the insurance contract and therefore the premiums receivable from the intermediary are excluded from the scope of IFRS 9.

Staff analysis

33. IFRS 17 is silent on when cash flows included within the measurement of a group of insurance contracts are removed from that measurement. By implication, amounts of cash flows are removed from that measurement when they are recovered or settled.

34. Feedback refers to examples of expected future cash flows included within the measurement of a group of insurance contracts that are also within the scope of another IFRS Accounting Standard (paragraph 21 of this paper):

    (a) *IAS 12*—paragraph B65(m) and paragraph B66(f) of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts expected income tax payments that are specifically chargeable to the policyholder under the terms of the contract; and

    (b) *IFRS 16 or IAS 19*—paragraph B65(l) of IFRS 17 requires an insurer to include within the measurement of an insurance contract an allocation of expected [emphasis added] 'fixed and variable overheads (such as the costs of

[4] Paragraph 11 of IAS 32 Financial Instruments: Presentation defines a financial asset as: '…any asset that is… a contractual right to receive cash or another financial asset from another entity.'

accounting, *human resources*, information technology and support, building depreciation, *rent*, and maintenance and utilities) directly attributable to fulfilling insurance contracts.'[5]

35. The IFRS Accounting Standards referred to in paragraph 34 of this paper do not include a scope exclusion for rights and obligations that arise under an insurance contract. Accordingly, an insurer is required to apply those other Standards to transactions within their scope even if related amounts are already included within the measurement of a group of insurance contracts. Therefore, to avoid double accounting, the related cash flows need to be removed from the measurement of a group of insurance contracts when they are recognised as assets or liabilities under another Standard.

36. Consider, for example the treatment of expected defined benefit pension costs allocated and included in the measurement of a group of insurance contracts applying B65(l) of IFRS 17. An estimate of such expected cash flows will be included in the measurement from the initial recognition of the group of insurance contracts. When the employee service that gives rise to the pension cost occurs, a pension cost and liability will be recognised applying IAS 19. At that point, the relevant expected cash flows will be removed from the measurement of the group of insurance contracts. Continuing to include the cash flows expected to settle the pension liability in the measurement of a group of insurance contracts would:

    (a) double-count the liability for those cash flows; and

    (b) result in an insurance liability continuing to exist long after the insurer has fulfilled its other obligations under the insurance contract.

37. Accordingly, we hold the view that an insurer removes expected cash flows from the measurement of a group of insurance contracts under IFRS 17:

[5] Paragraph B65(l) of IFRS 17 requires an insurer to include an allocation of amounts that are not cash flows, for example building depreciation. Because the fact pattern covers premiums that are cash flows, we do not include examples of non-cash amounts that are included in the measurement of a group of insurance contracts.

(a) when the cash flows are recovered or settled; or

(b) when the cash flows are recognised as an asset or a liability applying another IFRS Accounting Standard.

38. In light of our view in paragraph 37(b) we consider next whether any cash flows that are already included within the measurement of a group of insurance contracts would be recognised as an asset or liability under IFRS 9.

The scope of IFRS 9

39. As mentioned in paragraph 31, supporters of View 2 say that when the policyholder pays the premiums to the intermediary it has discharged its obligation under the insurance contract. The insurer's right to receive premiums from an intermediary is a separate right that does not arise under the insurance contract with the policyholder but instead arises from a service agreement between the insurer and the intermediary. The premiums receivable therefore represents a separate financial asset that is within the scope of IFRS 9.

Staff analysis

40. In our understanding, supporters of View 2 are of the view that in the submitted fact pattern, the insurer recovers the premiums that arise under the insurance contract not in cash but by obtaining a right to receive these amounts under a contract that is not an insurance contract within the scope of IFRS 17. The service contract between the insurer and intermediary is not an insurance contract with a policyholder. This separate and new right is therefore not subject to the scope exclusion in IFRS 9. An insurer will be required to recognise the receivable from the intermediary under IFRS 9.

41. Paragraph 2.1(e) of IFRS 9 says:

> This Standard shall be applied by all entities to all types of financial instruments except… rights and obligations arising under

> an insurance contract as defined in IFRS 17 *Insurance Contracts*…

42. Appendix A of IFRS 17 defines an insurance contract as:

> A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

43. In our view, an understanding of paragraph 2.1(e) of IFRS 9 comes from how IFRS 17 defines the rights and obligations of an insurance contract. Even though the definition of an insurance contract in Appendix A of IFRS 17 refers to the contract between an insurer and a policyholder, this definition should not be read in isolation from the rest of that Standard. This view aligns with the view of supporters of View 1 set out in paragraph 30(c) of this paper.

44. Considering the requirements in IFRS 17 (for example, those listed in paragraph 26 of the paper about accounting for the cash flows within the boundary of an insurance contract), in our view, the scope of IFRS 9 excludes the substantive rights and obligations that establish the boundary of an insurance contract. As said in paragraph 27, an insurer's rights to collect premiums from a policyholder through an intermediary start within the scope of IFRS 17. Accordingly, an insurer's right to premiums cannot become subject to IFRS 9 after inception of the contract even if the right to collect the cash changes from the policyholder to the intermediary.

45. Additionally, apart from the specific provisions in paragraph 2.1(e)(i)–(v) of IFRS 9 (dealing with, for example, investment components separated from insurance contracts and credit cards that meet the definition of an insurance contract), neither IFRS 17 nor IFRS 9 provides a mechanism to bring receivables and payables for cash flows that have already been included within the measurement of a group of insurance contracts back into the scope of IFRS 9. In other words, as long as rights and

obligations (and related cash flows) are accounted for under IFRS 17, they are excluded from the scope of IFRS 9.

46. Our conclusion above means that an insurer will not recognise a receivable or payable under IFRS 9 for cash flows that are already included within the measurement of a group of insurance contracts. Accordingly, the situation described in paragraph 37(b) (that an insurer removes expected cash flows from the measurement of a group of insurance contracts when they are recognised as an asset or a liability applying another IFRS Accounting Standard) does not apply because of the explicit scope exclusion in paragraph 2.1(e) of IFRS 9. An insurer therefore keeps within the measurement of a group of insurance contracts premiums receivable from an intermediary until the amounts are recovered in cash.

Alternative interpretation

47. Despite our view in paragraphs 40–46, we nonetheless acknowledge that an alternative interpretation could be applied.

48. As mentioned in paragraph 33, IFRS 17 is silent on when cash flows included within the measurement of a group of insurance contracts are removed from that measurement. By implication, amounts of cash flows are removed from that measurement when they are recovered or settled.

49. IFRS 17, however, does not restrict the recovery or settlement of cash flows included within the measurement of a group of insurance contracts to only recovery or settlement in cash. This is best illustrated considering the following example:

> An insurer enters into a service agreement with a hospital to provide health services to the insurer's policyholders. The service agreement is not an insurance contract. The insurer includes within the measurement of a group of insurance contracts the amounts it expects to pay the hospital on behalf of the policyholder if that policyholder requires health services (paragraph B65(b) of IFRS 17). When a claim is incurred, the expected amount of payments to the

hospital remains within the measurement the group of contracts and included as part of the liability for incurred claims.

Considering the enforceable rights and obligations between the insurer, policyholder and hospital, the provision of the health services to the policyholder simultaneously:

a) settles the insurer's obligations to the policyholder in kind (as envisaged in paragraph B6 of IFRS 17[6]); and

b) gives rise to a contractual obligation under the service agreement for the insurer to pay the hospital.

It is possible to argue that because IFRS 17 does not restrict settlement of an obligation that arise under an insurance contract to settlement in cash, by incurring an obligation to pay the hospital for the health services provided, the insurer settles its obligation to the policyholder. This is because the insurer's obligation to pay the hospital arises when the obligation to the policyholder is discharged and under a separate contract that is not an insurance contract as defined in Appendix A of IFRS 17.

If the insurer takes this view, the insurer's remaining obligation to pay the hospital is recognised under IFRS 9 because this obligation does not fall under the scope exclusion in paragraph 2.1(e) of that Standard. The insurer then removes the respective expected cash flows from the liability for incurred claims and recognises the liability to the hospital as a separate financial liability under IFRS 9.

50. Applying the same thinking to premiums receivable, expected premiums receivable are included in the measurement of a group of insurance contracts. However, after the policyholder has discharged its obligation to pay the premiums (by paying them to the intermediary) and the insurer has accepted the obligation to provide the insurance contract services under the insurance contract, it is possible to argue that the

[6] Paragraph B6 of IFRS 17 says [emphasis added]: 'Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims **are settled** in kind…'

receivable under the insurance contract has been recovered by the receipt of a different receivable. That receivable from the intermediary arises under a contract that is not an insurance contract and is with a party other than the policyholder. Such a receivable should therefore be recognised applying IFRS 9. The insurer then removes the respective expected cash flows from the measurement of the group of insurance contracts.

51. Given the different interpretations could result in an insurer recognising the premiums from an intermediary under either IFRS 17 or IFRS 9, we next consider the implications for information about the timing of credit losses.

The amount and timing of credit losses

52. Supporters of View 2 (removing premiums receivable from an intermediary from the measurement of a group of insurance contracts, and recognising a separate financial asset under IFRS 9) say it is important to apply IFRS 9 to premiums receivable from an intermediary because any expected credit losses from an intermediary are immediately recognised and explicitly identified and presented, rather than included within the measurement of a group of insurance contracts. In their view, this treatment is appropriate because the insurer's right to receive premiums from an intermediary is now a separate right that does not arise under the insurance contract with the policyholder but instead arises from the service agreement between the insurer and the intermediary.

Staff analysis

53. IFRS 17 and IFRS 9 deal differently with expected credit losses from an intermediary. However, the difference in treatment is not an argument that supports either of the views described in paragraph 29 of the paper. The difference in treatment is a consequence of the measurement models of each Standard, both of which result in useful information for users of financial statements. Regardless of which interpretation (as described in paragraph 29) an insurer has, it is required to apply <u>all</u>

the requirements of the relevant IFRS Accounting Standard to the receivable from an intermediary, being either IFRS 17 or IFRS 9—the treatment is not only about presentation.

54. We also note that paragraph 131 of IFRS 17 requires disclosure of information about credit risk that arises from contracts within the scope of IFRS 17. Accordingly, users of financial statements will receive useful information specifically about credit losses and credit risk regardless of whether premiums from intermediaries are accounted for applying IFRS 9 or IFRS 17.

Other technical arguments

55. We analyse in the table below other views not already covered in the paper:

Views	Staff analysis
Supporters of View 1 say at its December 2018 meeting, the IASB considered and rejected a proposal that IFRS 17 should be amended to require the separate presentation and measurement of premiums receivable and claims payable under IFRS 9 because the principle of IFRS 17 recognises that a contract, and by extension groups of contracts, create a single bundle of rights and obligations.	The discussion at the December 2018 meeting was about premiums receivable from policyholders. It did not address the question of premiums receivable from intermediaries, which is the subject of the submission.
Supporters of View 1 say paragraph B25 of IFRS 17 says an insurance contract remains an insurance contract until all rights and obligations are extinguished.	We acknowledge the argument to say that because of the requirements in paragraph B25, rights and obligations that start under IFRS 17 remain under IFRS 17 until extinguished. In our view, paragraph B25 deals with the classification of an insurance contract.

	The insurance contract in the submitted fact pattern starts and remains within the scope of IFRS 17. In our view, this argument does not undermine the alternative interpretation set out in paragraphs 47–50.
Supporters of View 1 say insurers generally do not know (or do not have access to timely information about) the premiums policyholders have paid in cash to an intermediary. Therefore, separately recognising that amount may require changes to systems and making use of an estimation.	The Due Process Handbook neither requires (nor permits) the Committee to determine whether to add a standard-setting project to the IASB work plan on the basis of a cost-benefit assessment of applying existing requirements in IFRS Accounting Standards. Such a cost-benefit assessment is made when new requirements are developed.

Staff conclusion

56. In our view:

(a) IFRS 17 is the starting point for the premiums receivable from an intermediary. An insurer includes in the measurement of a group of insurance contracts an estimate of the future premiums. Paragraph B65 of IFRS 17 does not distinguish between premiums collected directly from a policyholder and premiums collected through an intermediary. Therefore, an insurer's rights to collect premiums from a policyholder through an intermediary are included within the measurement of a group of insurance contracts under IFRS 17.

(b) an insurer removes expected amounts of cash flows from the measurement of a group of insurance contracts:

(i) when they are recovered or settled; or

(ii) when they are recognised as an asset or a liability applying another IFRS Accounting Standard.

(c) paragraph 2.1(e) of IFRS 9 excludes from the scope of that Standard the rights and obligations that give rise to cash flows within the boundary of an insurance contract—following paragraph (b), an insurer keeps within the measurement of a group of insurance contracts cash flows that have become due to or from an intermediary; all of the expected cash flows (premiums, claims or commissions) remain in the measurement of a group of insurance contracts until recovered or settled in cash.

(d) notwithstanding our view in paragraph (c), we think an alternative interpretation cannot be precluded for receivables and payables that arise when an insurer's right or obligation under an insurance contract is discharged. IFRS 17 does not restrict the removal of cash flows from the measurement of an insurance group to their recovery or settlement *in cash*. The cash flows could be recovered or settled by the creation of new rights and obligations that do not arise under an insurance contract as defined in IFRS 17, and accordingly would be outside the scope of the exclusion in paragraph 2.1(e) of IFRS 9. If an insurer takes that view, it will:

(i) recognise those receivables or payables under IFRS 9 when the related rights and obligations arise under the contract that is not an insurance contract; and

(ii) remove the related expected cash flows from the measurement of a group of insurance contracts.

(e) regardless of the view an insurer takes, it is required to apply all the requirements of the relevant IFRS Accounting Standard to the receivable from an intermediary, being either IFRS 17 or IFRS 9—the treatment is not only about presentation.

Question 1 for the Committee
Does the Committee agree with our analysis of the application of the requirements in IFRS 17 and IFRS 9 included in paragraphs 24–56.

Whether to add a standard-setting project to the work plan

57. Paragraph 5.16 of the IFRS Foundation *Due Process Handbook* states that the Committee decides to add a standard-setting project to the work plan only if all of the following criteria are met:

    (a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;

    (b) it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting;

    (c) the matter can be resolved efficiently within the confines of the existing Standards and the Conceptual Framework; and

    (d) the matter is sufficiently narrow in scope that the IASB or the Committee can address it in an efficient manner, but not so narrow that it is not cost- effective for the IASB or the Committee and stakeholders to undertake the due process required to change a Standard.

58. Our analysis in paragraphs 24–56 of the paper indicates that it might be necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting (paragraph 5.16(b) of the *Due Process Handbook*) because an alternative interpretation of the requirements in IFRS 17 and IFRS 9 cannot be precluded in the fact pattern described. We have therefore considered whether this matter could be addressed efficiently if standard-setting were to be undertaken (paragraph 5.16(a)–(d) of the *Due Process Handbook*).

59. All respondents say it is common in all jurisdictions and for all types of insurance contracts for an intermediary to act as a link between an insurer and a policyholder (paragraph 11). However, in our view the alternative interpretation of the requirements in IFRS 17 and IFRS 9 does not meet the requirement in paragraph 5.16(a) of the *Due Process Handbook* (the matter has widespread effect and has, or is expected to have, a material effect on those affected) because:

    (a) the difference in interpretation affects the treatment of cash flows only when the cash flows:

        (i) were originally included in the boundary of an insurance contract;

        (ii) now arise from a contract that is neither an insurance contract nor with a policyholder; and

        (iii) the insurer's original right and obligation under the related insurance contract has been discharged; and

    (b) users of financial statements will receive useful information about credit losses and credit risk regardless of whether premiums from intermediaries are accounted for applying IFRS 9 or IFRS 17 (paragraph 54).

60. In our view, standard-setting would also not meet the requirement in paragraph 5.16(d) of the *Due Process Handbook* (the matter is sufficiently narrow in scope that the IASB or the Committee can address it in an efficient manner). The amendments would involve making changes to the interaction between IFRS 17 and IFRS 9. Such a project would involve assessing whether changes to the Standards 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 between an insurer and intermediaries). We have no evidence at this stage that the outcomes of applying the two views outlined in paper would be expected to have a material effect on the amounts that entities report. Consequently, in our view, a standard-setting project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. We recommend not to add this matter to the standard-setting agenda.

Staff recommendations

61. For the reasons described in paragraphs 57–60, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a tentative agenda decision that outlines the applicable requirements in IFRS 17 and IFRS 9 and how an insurer applies them to premiums receivable from an intermediary.

62. Appendix A to this paper sets out the proposed wording of the tentative agenda decision. In our view, the proposed tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan? 3. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?

Appendix A—proposed wording of the tentative agenda decision

Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)

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

In the fact pattern described in the request, an intermediary acts as a link between an insurer and a policyholder to bring about an insurance contract between them. At the reporting date, 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 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 defaults, the insurer can neither enforce payment of the premiums from the policyholder nor cancel the insurance contract.

The requests asked whether the insurer removes the premiums receivable from the measurement of a group of insurance contracts under IFRS 17, and recognises a separate financial asset under IFRS 9, when the policyholder pays the premiums to the intermediary.

Applying the requirements in IFRS Accounting Standards

The Committee observed that IFRS 17 is the starting point to consider the appropriate treatment for the premiums receivable from an intermediary. The Committee therefore analysed:

a. which cash flows are within the boundary of an insurance contract under IFRS 17;

b. when are cash flows removed from the measurement of a group of insurance contracts; and

c. what information is being provided about credit risk and expected credit losses.

Cash flows within the boundary of an insurance contract under IFRS 17

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 receivable.

The Committee observed 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. An insurer's rights to collect premiums from a policyholder through an intermediary is included within the measurement of a group of insurance contracts under IFRS 17.

The Committee next considered when cash flows already included in the measurement of a group of insurance contracts are removed from that measurement.

Removing cash flows from the measurement of a group of insurance contracts

The requests set out two views about when an insurer removes premiums receivable from an intermediary from the measurement of a group of insurance contracts:

a. *View 1*—an insurer removes the premiums receivable only when the insurer receives the premiums in cash.

b. *View 2*—an insurer removes the premiums receivable when the policyholder pays in cash the premiums to the intermediary and recognises a separate financial asset applying IFRS 9.

The Committee observed IFRS 17 is silent on when cash flows included within the measurement of a group of insurance contracts are removed from that measurement. By implication, cash flows are removed from that measurement when they are recovered or settled.

Additionally, some cash flows will fall within the scope of another IFRS Accounting Standard which an insurer will apply. To avoid two assets (or two liabilities) being recognised for the same cash flows, future cash flows recognised as an asset or a liability

applying another Standard must be removed from the measurement of the group of insurance contracts.

The Committee concluded that an insurer removes cash flows from the measurement of a group of insurance contracts:

a. when the cash flows are recovered or settled; or

b. when the cash flows are recognised as an asset or a liability applying another IFRS Accounting Standard.

The Committee therefore next considered when premiums receivable are recovered or settled and whether any cash flows relating to premiums receivable from an intermediary would be recognised as an asset under IFRS 9.

Scope of IFRS 9

Paragraph 2.1(e) of IFRS 9 says: 'This Standard shall be applied by all entities to all types of financial instruments except… rights and obligations arising under an insurance contract as defined in IFRS 17 *Insurance Contracts*…' Appendix A of IFRS 17 defines an insurance contract as: 'A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.' The Committee considered that even though the definition of an insurance contract refers to a contract between an insurer and a policyholder, this definition should not be read in isolation from the rest of the requirements in IFRS 17.

Paragraph 34 of IFRS 17 says 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.

The Committee considered how the requirements are used to support the two views set out in the requests:

a. *View 1*—all rights and obligations that give rise to cash flows within the boundary of an insurance contract applying IFRS 17 are excluded from the scope of IFRS 9.

b. *View 2*—rights and obligations that arise from a contract that is neither an insurance contract nor with a party that is a policyholder and that arise when an insurer's rights and obligations under the related insurance contract is discharged, are in the scope of IFRS 9 even if the cash flows arising from those rights and obligations have already been included in the boundary of an insurance contract applying IFRS 17.

The Committee was of the view that the scope of IFRS 9 excludes the substantive rights and obligations that establish the boundary of an insurance contract. Accordingly, an insurer's right to premiums cannot become subject to IFRS 9 after inception of the contract even if the right to collect the cash flows changes from the policyholder to the intermediary. An insurer therefore keeps within the measurement of a group of insurance contracts premiums receivable from an intermediary until the amounts are recovered in cash (View 1).

However, the Committee acknowledged that an alternative view (View 2) could be applied. This is because, after the policyholder has discharged its obligation to pay the premiums (by paying them to the intermediary) and the insurer has accepted the obligation to provide the insurance contract services under the insurance contract, it could be appropriate to consider that the receivable under the insurance contract has been recovered by the receipt of a different receivable under a contract that is not an insurance contract.

The Committee concluded that the requirements of IFRS 17 and of IFRS 9 could accommodate both View 1 and View 2 and therefore result in an insurer recognising the premiums receivable from an intermediary under either IFRS 17 or IFRS 9. The Committee therefore next considered the implications for information about the timing of credit losses.

Information about credit risk

The Committee observed that IFRS 17 and IFRS 9 deal differently with expected credit losses from an intermediary. Whichever view an insurer follows, it is required to apply all the requirements of either IFRS 17 (including paragraph 131 that requires disclosure of information about 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 the premiums receivable from an intermediary.

Conclusion

In the light of its analysis, the Committee considered whether to add a project on the interaction between IFRS 17 and IFRS 9 to its standard-setting agenda. The Committee noted that any such project would not be narrow in scope. With this in mind, the Committee observed that it had not obtained sufficient evidence that the outcomes of applying the two views outlined in this agenda decision would be expected to have a material effect on the amounts that entities report. Consequently, the Committee concluded that a project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. The Committee therefore decided not to add this matter to its standard-setting agenda.

Appendix B—Submissions

Submission 1 – Premiums receivable via intermediaries

B1. Two main approaches have been identified.

(a) Apply IFRS 17 to account for premiums receivable in all circumstances.

(b) Apply IFRS 17 to account for premiums receivable, except premiums receivable via intermediaries once the policyholders have satisfied their obligation to pay premiums by paying the intermediary, in which case IFRS 9 *Financial Instruments* applies.

Background: premiums receivable in the context of insurance contract measurement

B2. Under the general model, insurance contracts are measured as the sum of the fulfilment cash flows and a contractual service margin [IFRS 17.32].

B3. The measurement of the fulfilment cash flows comprises "all future cash flows within the boundary of each contract in the group" [IFRS 17.33] which would include, to the extent not yet received, "premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums" [IFRS 17.B65(a)] (or 'premiums receivable').

B4. When applying the premium allocation approach (PAA), the measurement of the liability for remaining coverage is based on premiums received minus amounts recognised as insurance revenue for services provided [IFRS 17.55], which can also be derived as the sum of the unearned premium applied under existing practice and premiums receivable (IASB PAA educational material).

Approach 1: Apply IFRS 17 to account for premiums receivable in all circumstances

Insurance contract cash flows include all cash flows that 'relate directly to the fulfilment of the contract'

B5. All the cash flows an insurer expects to receive that 'relate directly to the fulfilment of' insurance contracts are cash flows within the scope of IFRS 17 [IFRS 17.B65] and are required to be included in the measurement of a group of insurance contracts [IFRS 17.33].

B6. IFRS 17.B65 does not distinguish between cash inflows or outflows from policyholders or intermediaries, and is not limited to cash flows that arise directly from the insurance contracts issued to policyholders. In particular:

(a) IFRS 17.B65 describes the cash inflows within the boundary of an insurance contract as including "premiums (including premium adjustments and instalment premiums) from a policyholder". All premiums, regardless of whether they flow directly or via an intermediary are 'from a policyholder'.

(b) IFRS 17.B65 requires the inclusion of cash flows that arise from contracts with intermediaries or other third parties (separate legal contracts from the insurance contract with the policyholder) such as insurance acquisition costs (e.g. sales commissions) [IFRS 17.B65(e)], "recurring commissions that are expected to be paid to intermediaries" [IFRS 17.B65(h)] and salvage and subrogation recoveries [IFRS 17.B65(k)].

B7. Agenda Paper 2A *Presentation of insurance contracts on the statement of financial position* for the IASB meeting in December 2018 makes clear that an insurance contract creates a single bundle of rights and obligations. Consistent with this principle, all the obligations and rights under an insurance contract, including premiums to be received (from all sources), claims and other costs directly attributable to fulfilling insurance contracts, would all need to be accounted for under IFRS 17.

Received means 'actually received'

B8. The IASB clarified in Agenda Paper 6 *Implementation challenges outreach report* for the IFRS 17 TRG meeting in May 2018 that (emphasis added):

> Premiums, if any, received, as included in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 means **premiums actually received** at the reporting date. It does not include premiums due or premiums expected [paragraph A14].

B9. The application of Approach 2 would result in the following once the premiums have been remitted to the intermediaries by the policyholder (refer to the Example section further below):

(a) treatment of these cash flows as 'received' within the IFRS 17 liability for remaining coverage, increasing the liability; and

(b) the recognition of a separate IFRS 9 receivable asset until the premiums are actually received by the insurer from the intermediary.

B10. This treatment[7] is contradictory to the clarification provided in the IFRS 17 TRG agenda paper above that premiums are accounted for as 'received' within the IFRS 17 liability for remaining coverage only once they are 'actually received'.

B11. As premiums held by an intermediary have not been 'actually received' by the insurer, it would still be considered 'receivable' by the insurer. The premiums remain receivable by the insurer under an insurance contract until passed on by the intermediary to the insurer. Accordingly, IFRS 9 cannot apply to premiums receivable via an intermediary because it would be illogical to treat premiums as received under IFRS 17 but as still being receivable under IFRS 9.

Consistency with amounts payable via intermediaries

B12. It is clear that amounts such as claims payable to policyholders via intermediaries are within IFRS 17 because:

[7] Dr Premium receivable asset – IFRS 9; Cr Insurance liability LFRC – IFRS 17

(a) an insurer derecognises an insurance contract when, and only when it is extinguished, that is, when the obligation specified in the insurance contract expires or is discharged or cancelled; or any of the conditions in IFRS 17.72 (relating to modifications) are met [IFRS 17.74]; and

(b) a contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (that is, discharged, cancelled or expired) [IFRS 17.B25].

B13. To achieve consistency between the accounting for amounts receivable and amounts payable via intermediaries, it is necessary for all cash flows via intermediaries that relate to insurance contracts to be accounted for within the scope of IFRS 17.

B14. Consistency in this regard seems important since the one service arrangement between an insurer and intermediary could give rise to receivables and payables and because amounts under the arrangement in respect of the same insurance contracts can change, for example, from being receivables at one reporting date to being payables at a subsequent reporting date. For example, amounts of premiums receivable and commissions payable are often settled net between insurers and intermediaries. It would be wrong (and generally impracticable) for an insurer to switch back and forth between applying IFRS 17 and IFRS 9 in respect of amounts outstanding under the one agreement for the same group of insurance contracts.

B15. Since it is routine for amounts due to an intermediary (such as commissions) to be set off against premiums receivable, and for the net amounts to be paid/received, the accounting for the net cash flow due to or from an intermediary under IFRS 17 would best reflect the amounts an insurer would eventually match to the receipt or payment of cash.

Scope exclusions and exclusions

B16. IFRS 9 does not apply to any cash flows associated with insurance contacts on the basis that:

(a) IFRS 9 notes that insurance contracts and all the related rights and obligations are scoped out of IFRS 9 [IFRS 9.2.1(e)]; and

(b) the scope of IFRS 17 contrasts with the scopes of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, which each have an explicit reference to the application of IFRS 9 to customer/lease receivables [IFRS 15.108; and IFRS 16.77].

Approach 2: Apply IFRS 17 to some premiums receivable and IFRS 9 to others

B17. In some circumstances[8], the payment of the premium by the policyholder to the intermediary discharges the insurer's right to payment from the policyholder under the insurance contract and the insurer is now unconditionally obliged to fulfil its contractual obligations to the policyholder.

B18. In these circumstances, premiums receivable from the intermediary are no longer the subject of an enforceable right under an insurance contract. This is because the insurer has no right of recourse to the policyholder for the payment of the premium, it only has recourse to the intermediary who holds the premium and this right is enforceable under the contract between the insurer and intermediary. Therefore, the right to receive the premium from the intermediary is a separate right not arising under an insurance contract.

B19. The right to receive the premium from the intermediary is an enforceable right under the contract between the intermediary and the insurer, which is a service contract and not an insurance contract. The premium receivable is therefore within the scope of IFRS 9.

B20. Supporters of Approach 2 argue that it is important to apply the IFRS 9 expected credit loss model to receivables that are subject to an agreement between an insurer and intermediary so that credit losses are explicitly identified and presented, rather

[8] This is typically the case in jurisdictions with strong consumer protection laws.

than subsumed within the measurement of expected fulfilment cash flows under IFRS 17. [They hold this view, despite the IASB's consideration of the issue in Agenda paper 2A *Presentation of insurance contracts on the statement of financial position* at its December 2018 meeting (noted above).]

B21. Supporters of Approach 2 argue that, when the payment of premiums by the policyholder to the intermediary discharges the insurer's right to payment from the policyholder, the insurer has effectively received the premium. This leaves the receivable from the intermediary to be accounted for under IFRS 9.

Example Insurance contracts commence on 1 October 20X1 and **policyholders pay their premiums to an intermediary** on that date. **None of the premiums are forwarded to the insurer** prior to 31 December 20X1. Claims are incurred evenly over the coverage period. Coverage period = 1 year.	Premiums	$2,400
	Claims	($1,800)
	Risk adjustment	($120)
	CSM	($480)

Approach 1: Apply IFRS 17 to account for premiums receivable in all circumstances.

General model *– Liability for remaining coverage – as at 31 December 20X1*

	IFRS 17 (Asset)/Liability	**Comment**
Cash inflows	($2,400)	**Expected from intermediary**
Cash outflows	$1,350	$1,800 x (9/12 months)
Risk adjustment	$90	$120 x (9/12 months)
Fulfilment cash flows	**($960)**	
CSM	**$360**	$480 x (9/12 months)
Insurance (asset)/liability (A/LFRC)	**($600)**	

***PAA** – Liability for remaining coverage – as at 31 December 20X1*

	IFRS 17 (Asset)/Liability	**Comment**
Premiums received	-	
Amounts earned to insurance revenue	($600)	$2,400 x (3/12 months)
Insurance (asset)/liability (A/LFRC)	**($600)**	

Approach 2: Apply IFRS 17 to some premiums receivable and IFRS 9 to others

***General model** – Liability for remaining coverage – as at 31 December 20X1*

	IFRS 17 (Asset)/Liability	**IFRS 9 (Asset)**	**Comment**
Cash inflows	-	($2,400)	**Deemed received under IFRS 17 and recognised as an asset under IFRS 9**
Cash outflows	$1,350		$1,800 x (9/12 months)
Risk adjustment	$90		$120 x (9/12 months)
Fulfilment cash flows	**$1,440**	($2,400)	
CSM	**$360**		$480 x (9/12 months)
Insurance (asset)/liability (A/LFRC)	**$1,800**	**($2,400)**	

***PAA** – Liability for remaining coverage – as at 31 December 20X1*

	IFRS 17 (Asset)/Liability	**IFRS 9 (Asset)**	**Comment**
Premiums received	$2,400	($2,400)	**Deemed received under IFRS 17 and recognised as an asset under IFRS 9**
Amounts earned to insurance revenue	($600)		$2,400 x (3/12 months)
Insurance (asset)/liability (A/LFRC)	**$1,800**	**($2,400)**	

Submission 2—Suggested agenda item: Insurance contract premiums receivable via intermediaries

B22. It has come to our attention that there are diverse views on the accounting for insurance contracts when the expected premium cash inflows are receivable via intermediaries which operate between the insurer and the policyholder.

B23. We seek clarification from the IFRS Interpretations Committee on whether the premium due to an insurer from an intermediary should be accounted for under IFRS 17 or IFRS 9. The submission focuses on a scenario where the insurer must fulfil its obligations to the policyholder under the insurance contract because the policyholder has paid the premium to the intermediary.

BACKGROUND

B24. Intermediaries operate by assisting insurers to sell their insurance contracts and policyholders to buy them. Often the intermediary has the responsibility to collect, on behalf of the insurer, the policyholder's premiums. The question arising is whether the insurer should account for premiums that have been collected by an intermediary but not yet remitted to the insurer applying:

(a) IFRS 17, as expected cash inflows not yet received; or

(b) IFRS 9, as a financial asset receivable from an intermediary.

B25. The focus of this submission is on the situation in which an insurer must fulfil its obligations to the policyholder under the insurance contract even if it has not received the insurance premium from the intermediary. Such arrangements are prevalent and the insurer’s obligation can be the result of either the application of law or the contractual terms between the insurer, the intermediary and the policyholder.

B26. This submission does not consider the situation in which the insurer is not required to fulfil its obligations to the policyholder under the insurance contract if it has not received the insurance premium from the intermediary. There appears to be general agreement that IFRS 17 applies in such situations.

B27. In addition, this submission does not distinguish between whether the intermediary is acting on behalf of the policyholder or the insurer because this is not considered to be a factor in determining whether the insurer is required to fulfil its obligations from contracts under IFRS 17. For example, we are aware of jurisdictions where the insurer is required to fulfil their obligations under the insurance contract even though cash is held by an intermediary who acts of behalf of a policyholder. We are also aware of jurisdictions in which premium monies may be held by an intermediary in trust accounts that are not under the control of the intermediary and to which both policyholder and insurer have beneficial rights. This submission is based on the following fact pattern:

An insurer issues 1,000 travel insurance policies sold to policyholders through an intermediary on 1 December 2020.

The coverage period for those policies is from 15 December 2020 to 14 December 2021, inclusively.

There is a single premium payment due.

The policyholders paid the full amount of premiums due under the insurance contracts to the insurer's intermediary on 15 December 2020. The intermediary received the premium on the same day in its bank account.

The intermediary has not remitted any of the premiums to the insurer as at the year-end 31 December 2020 because the agreement with the insurer stipulates that the remittance will be made on 28 February 2021 when it will only remit the amount of the premium less a 9% commission that the intermediary is entitled to retain for its services to both the insurer and the policyholder. The insurer has included the commission in the fulfilment cash flows under IFRS 17 and has classified it as an insurance acquisition cash flow. The intermediary recognised the amounts received from policyholder in its 31 December 2020 financial statements as cash.

The bank account into which the policyholders pay the premiums is not controlled by the insurer (i.e. before remittance by the intermediary, the insurer does not control the cash to which it is entitled).

In case of default by the intermediary, the insurer is not entitled to recover the premiums from the policyholders.

All amounts payable to the intermediary relate to recognised insurance contracts and there are no pre-coverage assets or liabilities.

The insurance policies are within the same portfolio and are all in a profitable group. Thus, the 1,000 insurance policies issued on 1 December 2020 are all within the same group of insurance contracts as they are all issued in December 2020.

On 31 December 2020, the group of insurance contracts is not onerous.

The insurer applies the Premium Allocation Approach (PAA) to account for this group of insurance contracts.

B28. This submission considers 2 scenarios:

(a) Scenario 1: the intermediary remits the cash for premiums (net of commission) collected to the insurer on 28 February 2021.

(b) Scenario 2: after 31 December 2020, the intermediary suddenly and unexpectedly goes bankrupt and does not remit any of the premiums (net of commission) collected.

B29. The Question remains equally applicable irrespective of whether commission due from the insurer to the intermediary are netted against premiums due from the intermediary to the insurer. The netting of commission is included in the example as it is common practice.

QUESTION

B30. On 31 December 2020, are the premiums due to the insurer from its intermediary within the scope of IFRS 17 or IFRS 9?

VIEW 1: WITHIN THE SCOPE OF IFRS 17

B31. The premiums to be received from the intermediary have arisen from a group of insurance contracts and they should be accounted for in accordance with IFRS 17:33. The premiums receivable are future fulfilment cash inflows not yet received and within the boundary of each contract in the group.

B32. IFRS 9:2.1(e) is clear that the rights and obligations arising under insurance contracts are outside the scope of IFRS 9, except for the items listed in (i) to (v). The insurance contracts described above do not fall into any of the scope inclusions listed in IFRS 9:2.1(e)(i) to (v).

B33. Applying IFRS 17:25 to the travel insurance policies described in this submission, the group of insurance contracts is recognised on 15 December 2020 as this is the earliest of (i) the beginning of the coverage period of the group (15 December 2020), (ii) the

date when the first payment from a policyholder in the group becomes due (15 December 2020), and (iii) the date when the group becomes onerous (not applicable in this case since the group was not onerous).

B34. Under this view, the premiums received and held by the intermediary continue to form part of the insurer's liability for remaining coverage. This is because the term 'premiums received' means premiums actually received in cash at the reporting date and does not include premiums receivable, that is, premiums invoiced but not yet received and future premiums not yet invoiced. This conclusion was noted by the Transition Resource Group for IFRS 17 *Insurance Contracts* in February 2018 in the IASB staff response to Submission S23 of Agenda Paper 7 *Reporting on other questions submitted*.

B35. This conclusion applies under the general model, variable fee approach and PAA.

B36. At its December 2018 meeting, the IASB considered and rejected a proposal that IFRS 17 should be amended to require the separate presentation and measurement of premiums receivable and claims payable under IFRS 9. Paragraph 47 or the agenda Paper 2A *Presentation of insurance contracts on the statement of financial position* noted that:

> … [t]he principle of IFRS 17 recognises that a contract, and by extension groups of contracts, create a single bundle of rights and obligations. Measuring premiums receivable and claims payable separately and differently from the corresponding obligations and rights is inconsistent with this principle that measuring premiums receivable and claims payable separately from insurance contracts would result in internal inconsistencies in IFRS 17.

B37. Supporters of View 1 also point to IFRS 17:2, which explains that any substantive rights and obligations that arise from entering into an insurance contract whether they are from a contract, law, or regulation fall within the scope of IFRS 17.

B38. Supporters of View 1 also argue that, as noted in Agenda Paper 2A (IASB meeting of December 2018), applying IFRS 9 to premiums receivable via intermediaries is not workable in an IFRS 17 context for two key reasons:

(a) it would involve presenting amounts from an IFRS 17 perspective as if they had been received when they have not, as IFRS 17 requires the premium to be

actually received in cash by the entity to be considered received under IFRS 17; and

(b) the accounting for premiums receivable via intermediaries may then be inconsistent with the accounting for amounts payable to the same intermediaries (e.g., for the insurance acquisition cash flows due to the intermediary for the sale of the insurance contracts) creating operational complexity and potentially creating internal inconsistency between IFRS 17 assets and liabilities .

B39. If IFRS 9 is applied to the premiums receivable from intermediaries, those amounts would presumably need to be presented as if they had been actually received in the reconciliation required by IFRS 17:105(a)(i). This would be misleading since the money has not have been actually received. This would also be confusing in the context of the presentation of a cash flow statement prepared using the direct method. Cash cannot be actually received under IFRS 17 and remain receivable under another IFRS Standard.

B40. Finally, supporters of View 1 note that when commissions due to an intermediary are set off against premiums receivable as is the case in this example, and so net amounts are paid/received, accounting for the net cash flow due to or from an intermediary under IFRS 17 would naturally keep together the elements that the insurer would eventually match to the receipt or payment of cash.

Applying View 1 to the fact pattern presented in this submission

Initial recognition (on 15 December 2020)

B41. The right to receive insurance premiums from the intermediary has arisen from a group of insurance contracts and is accounted for in accordance with IFRS 17.

B42. In this scenario, the receipt of premiums by the intermediary on 15 December 2020 does not affect the date of initial recognition of the group of insurance contracts. This is because 15 December 2020 is the premium due date for the first policy in the group which is the earliest recognition date in accordance with IFRS 17:25.

B43. Under the PAA, as no cash has been received as at 15 December 2020, the liability for remaining coverage is nil. This reflects the fact that IFRS 17:55(a)(i) requires the carrying amount of the liability to be recognised at initial recognition only for the premiums received.

At year-end (on 31 December 2020)

B44. Applying IFRS 17:55(b)(v), 'insurance revenue' is recognised for services provided in the period (from 15 December 2020 to 31 December 2020) with the same amount recognised as an 'asset for provided coverage', effectively the asset side of what IFRS 17 defines as the liability for remaining coverage, only that at this date the asset relates to the coverage already provided. This asset is an IFRS 17 asset.

Subsequent to year-end

Scenario 1: The intermediary remits the cash for premiums collected to the insurer on 28 February 2021.

B45. Applying IFRS 17:55(b)(i), the receipt of cash by the insurer for the insurance premiums collected and remitted by the intermediary is recognised as an adjustment to the carrying amount of the insurance asset.

B46. Note that if the group of insurance contracts was measured under the general model instead of the PAA, a similar result would be achieved. This is because at initial recognition the group is expected to be profitable, the contractual service margin (CSM) balance is equal and opposite to the net fulfilment cash inflows, and the initial measurement of the group is nil (IFRS 17:32). At year-end, insurance revenue is recognised for the services provided for the period and a corresponding reduction in liability for remaining coverage is recognised resulting in an asset as per IFRS 17:41(a). Note that for simplicity's sake, the accounting for time value of money and the release of risk adjustment have been ignored and it is assumed that no claims are expected before 1 March 2021.

B47. Upon receiving insurance premiums on 28 February 2021, the fulfilment cash flows of the insurance contract carrying amount are adjusted per IFRS 17:40(a)(i)).

Scenario 2: After 31 December 2020, the intermediary suddenly and unexpectedly goes bankrupt and does not remit any of the premiums collected.

B48. Under the PAA, because these are single premium contracts and none of the premiums on those issued contracts paid to the intermediary by 28 February 2021 have been remitted to the insurer, the group has become onerous. Applying IFRS 17:57 and 58, the insurer recognises the extent to which the group is onerous as a loss in profit or loss and a loss component which is an increase in the liability for remaining coverage.

B49. Note that if the group of insurance contracts was measured under the general model instead of the PAA, a similar result would be achieved.

VIEW 2: WITHIN THE SCOPE OF IFRS 9

B50. Once policyholders remit the premiums to the intermediary in cash, the insurer has in effect received the premium payments, given that, in the event of default by the intermediary, the insurer must still fulfil its obligations to the policyholders. As such, the policyholders have effectively paid the premiums to the insurer. The right to receive insurance premiums from the intermediary is a separate contractual right not arising under an insurance contract and the scope exemption in IFRS 9:2.1(e) does not apply.

B51. In this scenario, the receipt of premiums by the intermediary on 15 December 2020 does not affect the date of initial recognition, because 15 December 2020 is the earliest recognition date in accordance with IFRS 17:25. However, applying this view, the premiums received by the intermediary are considered to have been received by the insurer and the liability for remaining coverage is adjusted by the same amount. As no cash has been received, an IFRS 9 receivable is recognised as due from the intermediary, and the expected credit loss model is applied to the receivable to reflect the credit risk the insurer has assumed in respect of the default risk of the intermediary.

B52. In the event of non-payment of the premiums to the insurer by the intermediary as in scenario 2, insurance revenue and/or profitability of the group would be unaffected. Instead, an impairment loss would be recognised in respect of the financial receivable in accordance with IFRS 9.

B53. The same conclusion applies under the general model, variable fee approach and PAA.

B54. Even though the amount of premiums due from the intermediary would reduce in the "IFRS 17 receivable" and a separate receivable from the intermediary recognised under IFRS 9, any amounts payable to intermediaries (e.g., insurance acquisition cash flows, in this case the 9% commission) are expected to remain fulfilment cash flows within the scope of IFRS 17.

B55. Note that if the group of insurance contracts was measured under the general model instead of the PAA, the expected payment of insurance acquisition cash flows would form part of the liability for remaining coverage at initial measurement (IFRS 17:33 and B65(e)) and the IFRS 9 financial asset would only be recognised for the expected amount of premium receivable from the intermediary. The subsequent remittance of the net amount from the intermediary (i.e., net of premium receipts and acquisition costs) would result in derecognition of the IFRS 9 financial asset and a debit to the IFRS 17 liability for remaining coverage, without any impact in profit or loss.

B56. Unlike View 1, the group of insurance contract is not reported as onerous, which reflects that the insurance risk has not increased unexpectedly, nor has the calculation of premiums become insufficient to absorb the insurance risk transferred from the policyholders to the insurer. Instead, the recognition of expected credit losses fairly represents that the insurer has assumed credit risk in respect of the intermediary (which has materialised in scenario 2) and should be presented as impairment loss outside insurance service result.

Applying View 2 to the fact pattern presented in this submission

Initial recognition (on 15 December 2020)

B57. The right to receive insurance premiums from the intermediary is a separate right not arising from issued insurance contracts. It arises instead from a service agreement between the insurer and the intermediary. That is, on payment by a policyholder to the intermediary, expected fulfilment cash inflows would be reduced and a separate receivable from the intermediary recognised under IFRS 9. On 15 December 2020, the

insurer recognises the full amount of the insurance premiums paid by the policyholders to the intermediary as an IFRS 9 receivable and the same amount would be recognised as a liability for remaining coverage as if the premiums were received by the insurer.

B58. Note that the receivable from the intermediary would be subject to the expected credit loss model. The effect of the application of the ECL model is ignored for the sake of simplicity.

At year-end (on 31 December 2020)

B59. Insurance revenue would be the same as in View 1 with the presentation in the statement of financial position that is described above adjusted for the reported revenue amount.

Subsequent to year-end

Scenario 1: The intermediary remits the cash for premiums collected to the insurer on 28 February 2021.

B60. The insurer would debit cash received, derecognise the IFRS 9 receivables recognised and debit the IFRS 17 liability for remaining coverage for the commission on 15 December 2020.

Scenario 2: After 31 December 2020, the intermediary suddenly and unexpectedly goes bankrupt and does not remit any of the premiums collected.

B61. An impairment loss is recognised on the receivable and presented in a separate line in profit of loss [IAS 1.82(ba)]. Subsequently, the group of insurance contracts continues to be measured as profitable with the release of the CSM as services are provided.

B62. The insurer does not change the accounting for the group of insurance contracts (the group is not reported as onerous). Insurance revenue is recognised until the end of the coverage period as if the premium had been received in full.

REASONS FOR THE COMMITTEE TO ADDRESS THE ISSUE

B63. We believe that this accounting issue is prevalent in the global insurance market. We have observed differing views being applied as part of the ongoing implementation of

IFRS 17. This issue is not related to a Board project that is expected to be completed in the near future.

B64. For these reasons, we believe that this issue is urgent and meets the criteria for acceptance into the Committee's agenda.