

International Financial Reporting Standards

Presenting insurance contract revenue

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Statement of profit or loss and other comprehensive income

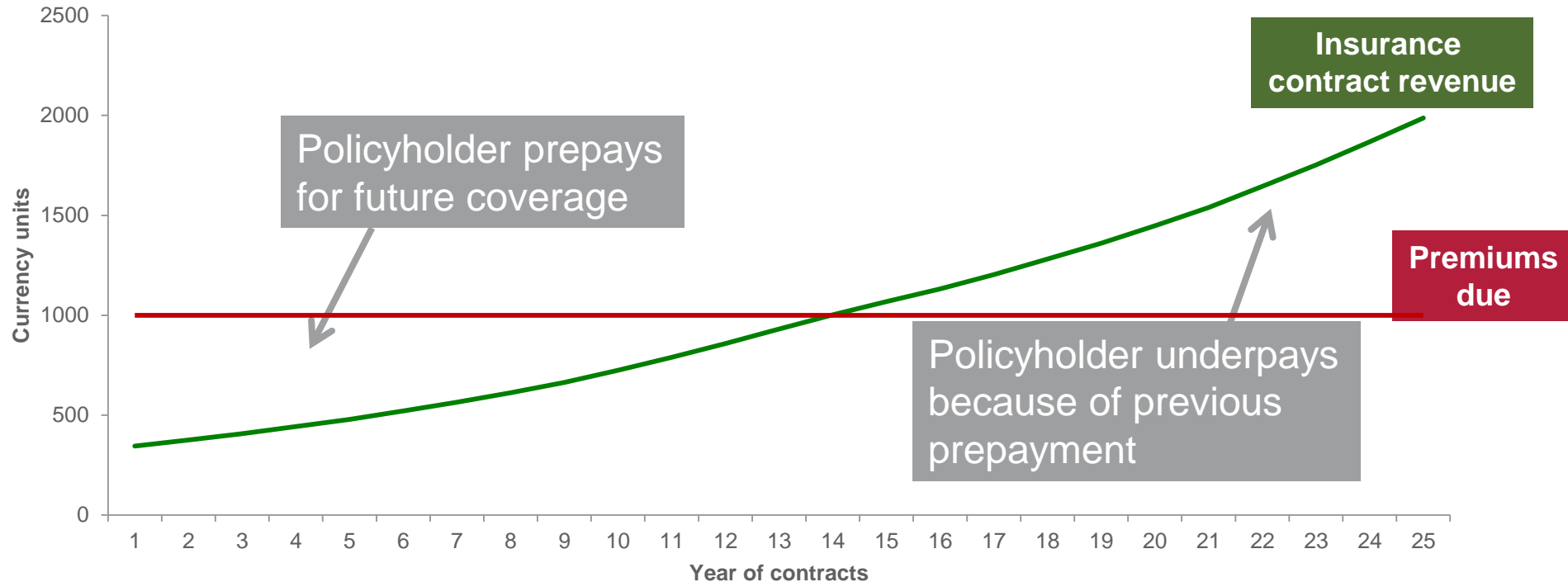
Revenue and expenses

- 56 An entity shall present revenue relating to the insurance contracts it issues in the statement of profit or loss and other comprehensive income. Insurance contract revenue shall depict the transfer of promised services arising from the insurance contract in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs B88–B91 specify how an entity measures insurance contract revenue.

Profile of insurance contract revenue over time

Portfolio of term life contracts

4



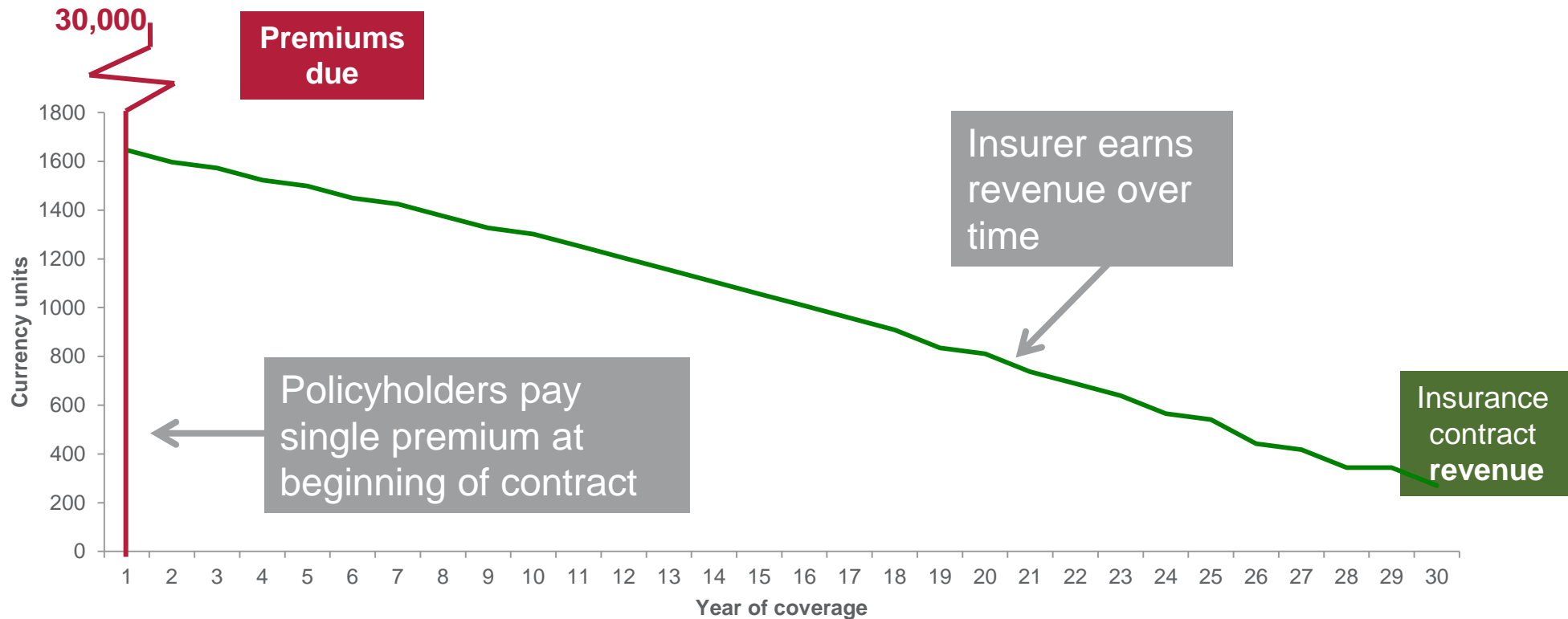
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- Portfolio of 25 year life insurance contracts issued to 40 year olds
- Premiums of cu1,000 due each year
- No investment component
- Expected claims proportional to current mortality rates
- For simplicity, assume no lapses and no discounting

Profile of insurance contract revenue

Portfolio of single premium annuity contracts

5



- Portfolio of immediate annuity contracts issued to 70 year olds
- Premiums of cu30,000 received at start of contracts
- Expected claims proportional to current longevity statistics
- For simplicity, assumes no discounting,

Statement of profit or loss and other comprehensive income Presentation Alternatives

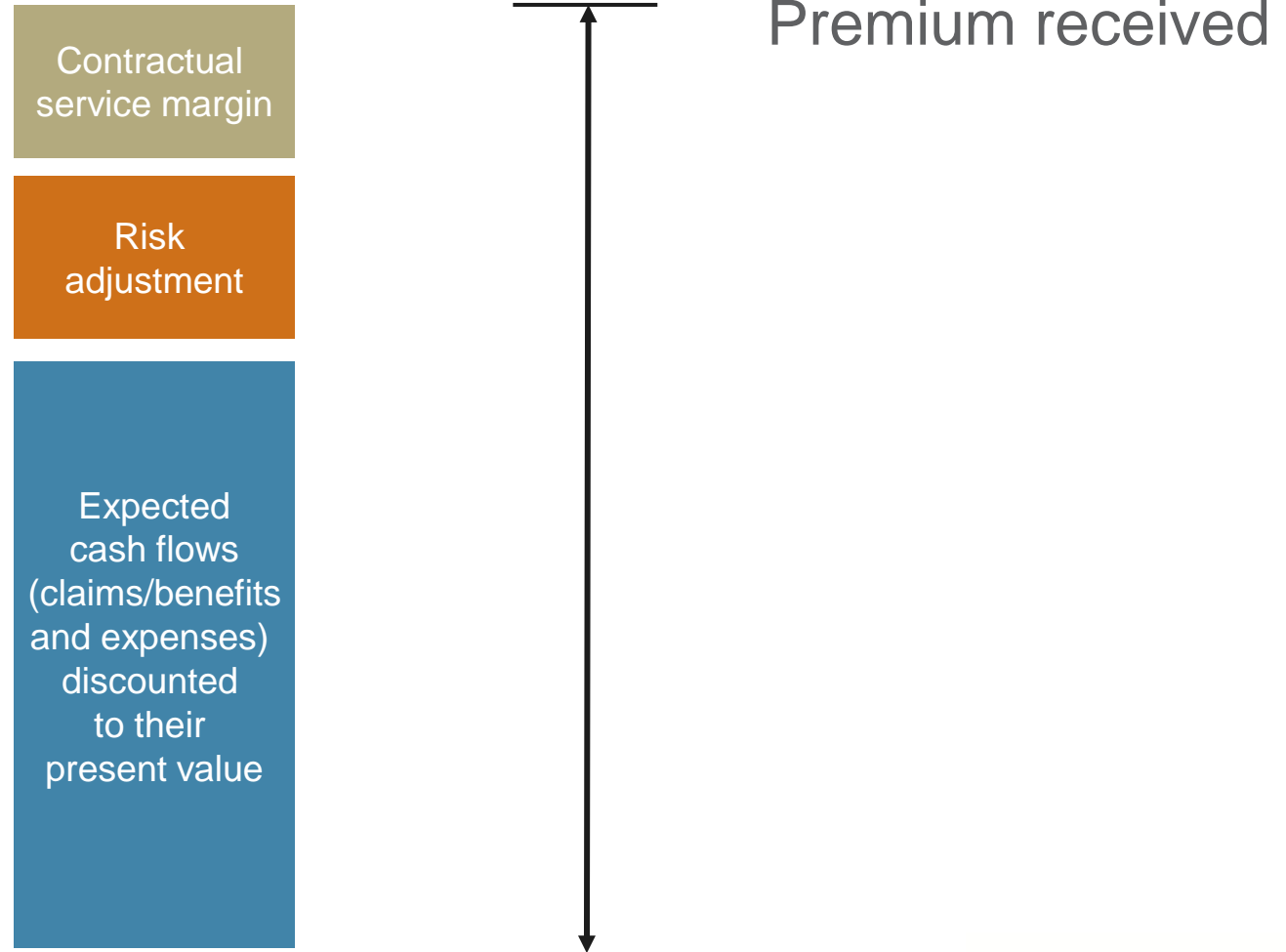
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Revenue and
claims presentation

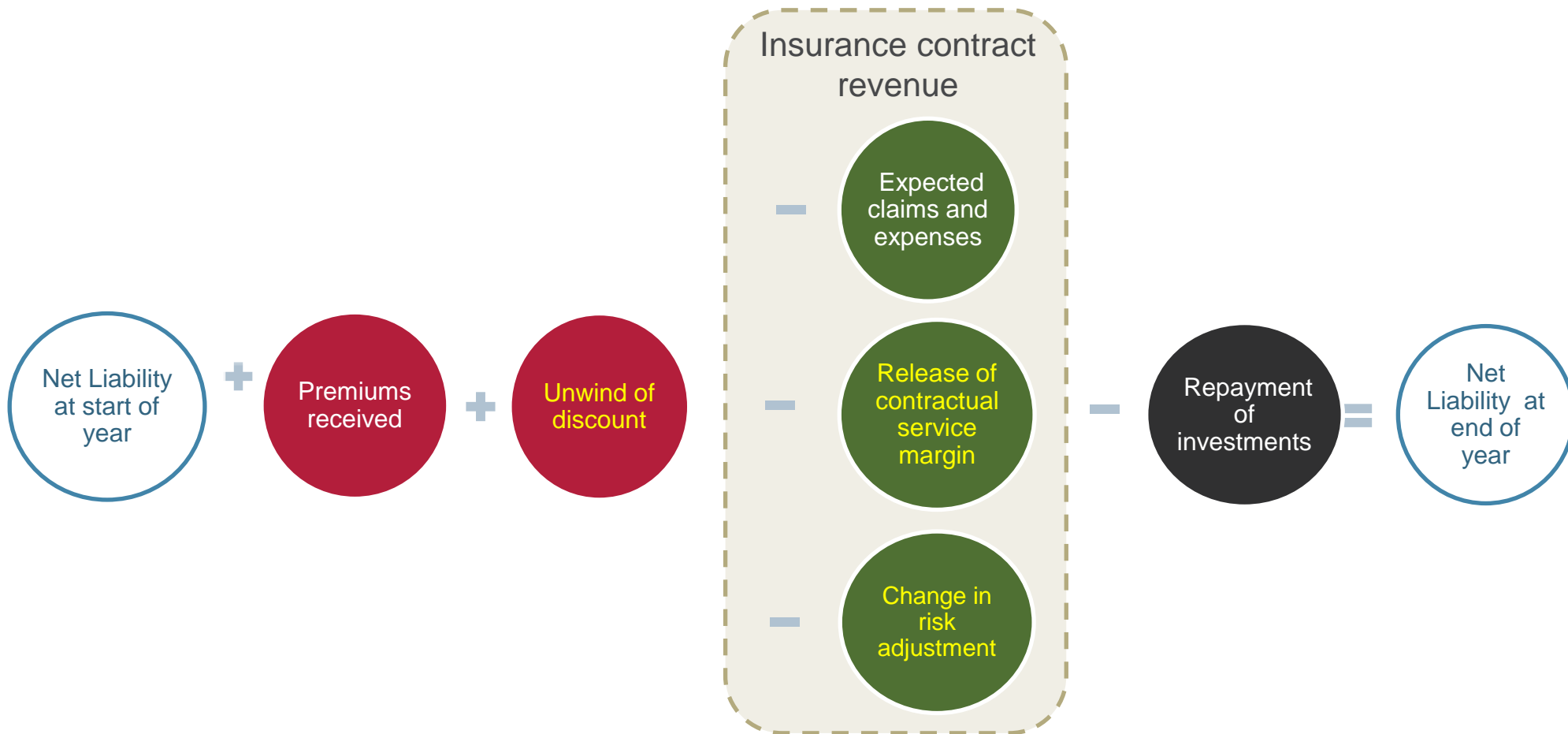
Summarised margin presentation

	CU	CU
Insurance contract revenue	x	
Claims and benefits incurred	- x	
Expenses	- x	
Amortisation of acquisition costs	- x	
Recognition and unwind of losses on future coverage (change in onerous contract liability)	± x	
Change in risk adjustment		y
Release of contractual service margin		y
Experience adjustments		± y
Initial losses/changes in estimates of future cash flows not offset against contractual service margin		- y
Operating result (underwriting margin)	x	x
Investment income	x	x
Interest accreted on insurance contract liability	- x	-x
Profit	x	x
Components of other comprehensive income	± x	± x
Total comprehensive income	x	x

Components of insurance contract liability



Insurance contract revenue – derived from measurement model



Expected claims = actual claims ± experience adjustments

Analysis of insurance contract liability required to measure revenue

	Currency units
Liability for remaining coverage:	
- Up to amount of premiums receivable for that coverage	X
- In excess of premiums receivable (expected losses)*	X
	X
Liability for incurred claims	X
Total insurance contract liability	X

*

Losses would have been recognised immediately in profit or loss, either:

- On initial recognition of the portfolio of contracts, or
- when an unfavourable change in estimates of cash flows exceeded the remaining amount of the contractual service margin

CURRENT PROPOSALS

Revenue and claims presentation for all contracts

- *Understandability*—activity measures based on commonly understood notions of revenue and expenses.
- *Useful information*—eg about balance between coverage and investment.
- *Comparability between insurers and other entities that provide services*—revenue is recognised when services are provided.
- *Comparability between insurers and other deposit-takers*—investment components are excluded from revenue.
- *Comparability between simplified and standard measurement approaches*—similar line items in statement of profit or loss. Simpler statements for composite insurers.

PREVIOUS PROPOSALS

Summarised margin presentation for some contracts

- *Comparability between insurers and other deposit-takers*—investment components are excluded from statement of comprehensive income.
- *Useful information*—underwriting result disaggregated to highlight main drivers of performance:
 - expiry of risk
 - margins on services
 - experience gains or losses in cash flows.
- *Simplicity*—very easily derived from and reconciled to changes in the insurance contract liability.

Thank you

