

## International Financial Reporting Standards



# Exposure Draft Insurance Contracts

*This presentation has been prepared to help stakeholders understand the current status of the insurance contracts project of the IASB. The views expressed in this presentation are those of the presenters. Official positions of the IASB are reached only after extensive due process and deliberations.*

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

## Presenters for today's webcast

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## Insurance Contracts ED now available

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- The documents are available online at [www.ifrs.org](http://www.ifrs.org)
- The comment period ends on 25 October 2013
- Send comment letters electronically to the IASB website at <http://go.ifrs.org/Exposure-Drafts>
- Contact the staff at [insurancecontracts@ifrs.org](mailto:insurancecontracts@ifrs.org)

- Who will be affected by the proposals
- Background
- Our proposals
- Balancing benefits against complexity
- Targeted improvements to previous proposals
- IFRS and US GAAP
- Timetable

We expect to provide further web-based material about the issues targeted by the ED during the comment period.

# Who will be affected by the insurance contract proposals?

## The proposals affect:

- Regulated insurance companies
- Any entity that issues:
  - Insurance contracts
  - Some types of fixed-fee service contracts
  - Third-party product warranties
  - Investment contracts that contain discretionary participation features
- Any existing or potential users of the financial statements of these entities

# Background to insurance contract proposals: No comprehensive IFRS today

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IFRS 4 *Insurance Contracts* is an interim Standard

- Permits continuation of a wide variety of accounting models
- Requires disclosures to enhance comparability and to understand reported amounts
- Does not facilitate transparency

We have listened and responded to your concerns

- Improves representation of some aspects
- Introduces practical accommodations to conceptual approaches
- Provides additional clarification and guidance

Revised Exposure Draft (ED) next step toward final Standard

- Builds on previous consultations
- Provides useful financial information
- Seeks feedback on changes to previous proposals
- Focuses on operational and reporting complexity of revised proposals

# Our proposals: Current, market-consistent measurement of insurance contracts

## Balance Sheet

Contractual service margin  
(Contract profit)

Fulfilment cash flows

**Future cash flows:** Expected cash flows from premiums and claims and benefits

**Risk adjustment:** An assessment of the uncertainty about the amount of future cash flows

**Discounting:** An adjustment that converts future cash flows into current amounts

The balance sheet amount reflects the **expected contract profit** from the insurance contract and a current estimate of the amount of **future cash flows** from the insurance contract, adjusted to reflect the **timing** and **uncertainty** relating to those cash flows.



# Our proposals: Information about how insurance contracts contribute to performance

## Statement of Comprehensive Income

	20XX
Insurance contracts revenue	X
Incurred claims and expenses	(X)
<b>Operating result</b>	<b>X</b>
Investment income	X
Interest on insurance liability	(X)
<b>Investment result</b>	<b>X</b>
<b>Profit or loss</b>	<b>X</b>
Effect of discount rate changes on insurance liability	(X)
<b>Total comprehensive income</b>	<b>XX</b>

The statement of comprehensive income reports an operating result which reflects **underwriting experience**, the **change in uncertainty** and the **profit from services** in the period and, through the interest and discount rate changes, both a current and a cost-based view of the **cost of financing** the insurance contract.

# Balancing benefits against complexity



# IASB seeks feedback on targeted aspects of proposals

## Measurement proposals

Changes in estimates relating to future profits recognised over remaining period

Measurement and presentation exception when no economic mismatch is possible

## Presentation proposals

Align to presentation of revenue required for other contracts with customers by other IFRSs

Amortised cost-based interest expense in profit or loss, current value-based on balance sheet

## Approach to transition

Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

- IASB and FASB have been working jointly since 2008
- IASB and FASB are publishing separate Exposure Drafts
  - Different starting points
  - Different stages in due process
- Overlapping comment periods enable interested parties to compare and comment on both sets of proposals
- Two sets of proposals will result in significant improvement to convergence compared to current situation

# Timetable



