



Insurance Contracts

Updates on IFRS 4 since ED and Discussion

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Brief Summary of progress since ED

| | Tentative Decisions | To be determined |
|---------------------|--|---|
| Residual Margin | No gain at inception | Whether and how to unlock |
| Risk Adjustment | [IASB only] Include independently measured and updated risk adjustment | Disclosures about risk adjustment Two margin vs. Single margin |
| Time Value of money | Top down approach allowed Not required when the effect of discounting is immaterial | Volatility → OCI presentation Specifying a premium allocation approach |
| Cash Flows | Expected value considering all relevant information | Acquisition costs |
| Other matters | Broadly confirmed scope proposed in ED | Investment contracts with DPF Fixed fee service contracts Financial guarantee contracts Transition and effective dates |

IFRS 4 Scope

[Tentative Decisions]

- Exclude some fixed-fee service contracts
- Financial guarantee contract would not be in the scope of IFRS 4 as proposed in the ED

[Open Points]

- Classification criteria ?
- Investment contracts with DPF ?

Building Block 1 – Cash flows

[Tentative Decisions]

- Fulfilment cash flows include all costs that the insurer will incur directly in fulfilling the contracts in the portfolio
- Acquisition costs include all the direct costs that the insurer will incur in acquiring the contracts in the portfolio

[Open Points]

- FASB additionally limit the acquisition costs to those related to successful acquisition efforts

Building Block 2 – Discounting

[Tentative Decisions]

- Objective is to adjust the future cash flows for the time value of money and to reflect the characteristics of insurance liability
- Current rate that is updated each reporting period
- Not required when the effect of discounting is immaterial
- No prescribed method to determining the discount rate
- For par-contracts, use a discount rate that reflects dependence

[Open Points]

- Top down approach vs. Bottom up approach

Building Block3 – Risk adjustment

[Tentative Decisions]

- Include an explicit adjustment for risk
- Re-measured in each reporting period

[Open Points]

- Two margin approach(IASB) vs. Single Margin(FASB)
- Whether it could be made comparable through disclosures

Building Block4 – Residual Margin

[Tentative Decisions]

- No gain at inception of an insurance contract
- Loss recognition on day one immediately when it occurs
- Unlocked for changes in estimates of future cash flows
- Residual margin allocated over the coverage period

[Open Points]

- Whether to unlock the residual margin for changes
→ FASB's view : Locking the single margin(Composite margin)

Volatility

[Response to the ED]

- Some insurers state that this volatility results from a failure to reflect the asset-liability management inherent to the business
- Most believe that this volatility would result in financial statement that will be difficult to explain, lack comparability

[Sources of Volatility]

- Accounting mismatches occur if assets backing insurance liabilities are not measured on the same accounting treatment
- Short-term market volatility might reverse over the long-term

Volatility

[Addressing volatility]

- **Eliminating accounting mismatches by permitting to:**
 - √ Present in OCI changes in the insurance liability
 - √ Measure participating and unit-linked liabilities on the same measurement basis as assets
- **Use ‘a top-down’ to determine the discount rate**
- **More extensive unbundling than proposed in the ED**
- **Use residual margin to absorb changes**

Short duration contracts

[Tentative Decisions]

- Deduct the acquisition costs from the pre-claims obligation
- Reduce the pre-claims obligations over the coverage period
- Perform an onerous contract test in the pre-claims period

[Open Points]

- Specifying a premium allocation approach
- Simplifications or exceptions in a premium allocation approach
- Permit or Require ? / Presentation Issue

Presentation

[Tentative Decisions]

- Provide information about premiums, claims and expenses
- Present the building block approach separately from modified approach on the statement of comprehensive income

[Open Points]

- Whether some changes in the insurance liability should be presented in other comprehensive income?

Transition and effective date

[Tentative Decisions]

- Completely Remaining topics
- Review draft or re-exposure ?

[Open Points]

- Determine effective date
- Consider effective date for IFRS 9 together with IFRS 4

Thank you !

