

# International Financial Reporting Standards

# Insurance Contracts Standard

*Subsequent measurement of  
insurance contracts*

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1. The need for change and the history of the project
2. What is an insurance contract
3. Initial measurement of insurance contracts
4. Subsequent measurement of insurance contracts
5. Modifications to General model: variable fee contracts
6. Other modifications to the General model
7. Presentation and disclosure
8. Applying the standard for the first time

# Remeasure in subsequent periods

IASB believes a **current value measure** of an insurance contract **provides the most useful information** about insurance contracts in the statement of financial position.

Contractual service margin

'Fulfilment cash flows'

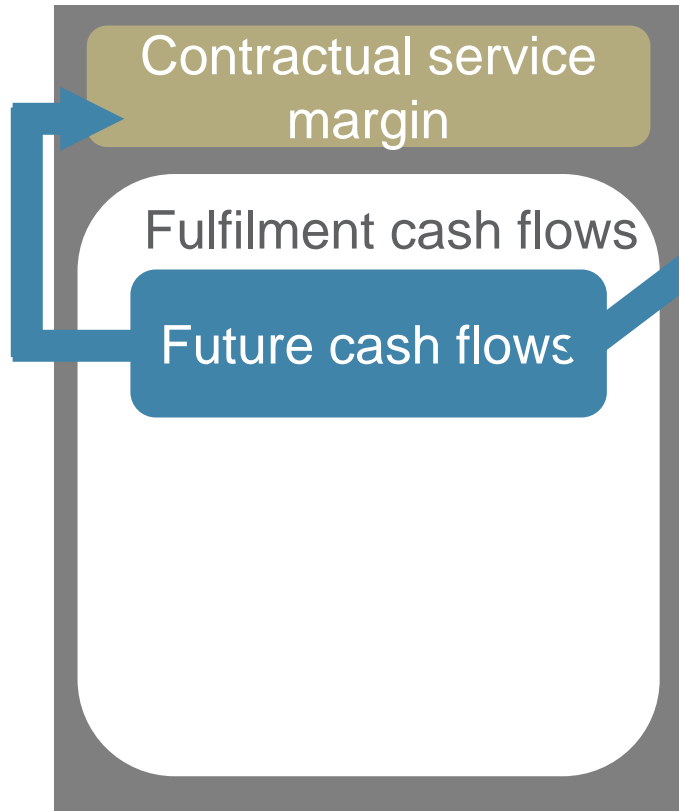
Future cash flows

Discounting

Risk adjustment

# Remeasure in subsequent periods

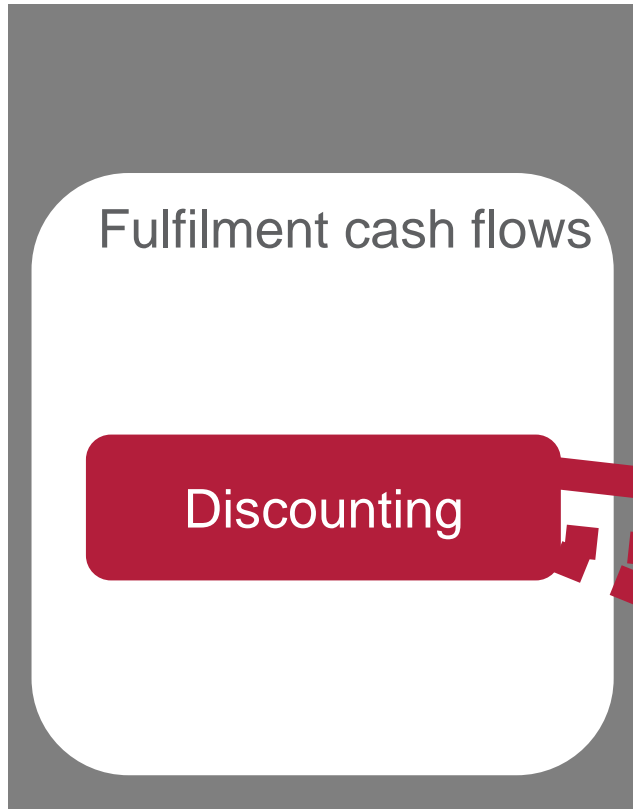
## *Recognition of changes in estimates*



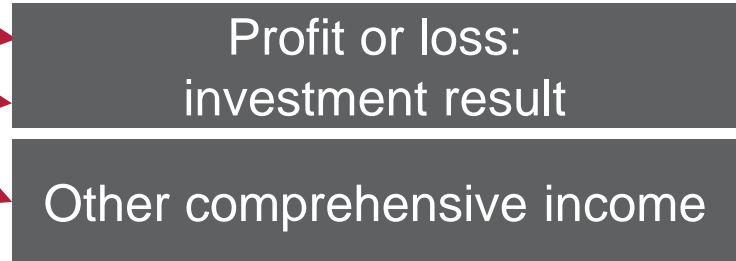
- Changes related to **past and current services** reflected in profit and loss (actual)
- Changes related to **futures services** 'unlock CSM' (estimates)
- Any changes not related to future services reflected in profit and loss

# Remeasure in subsequent periods

## *Recognition of changes in estimates*



- **Unwind of the discount** (time value of money) in profit or loss
- **Option** to present the effect of change in rate on fulfilment cash flows in either:
  - OCI, or
  - Profit or loss



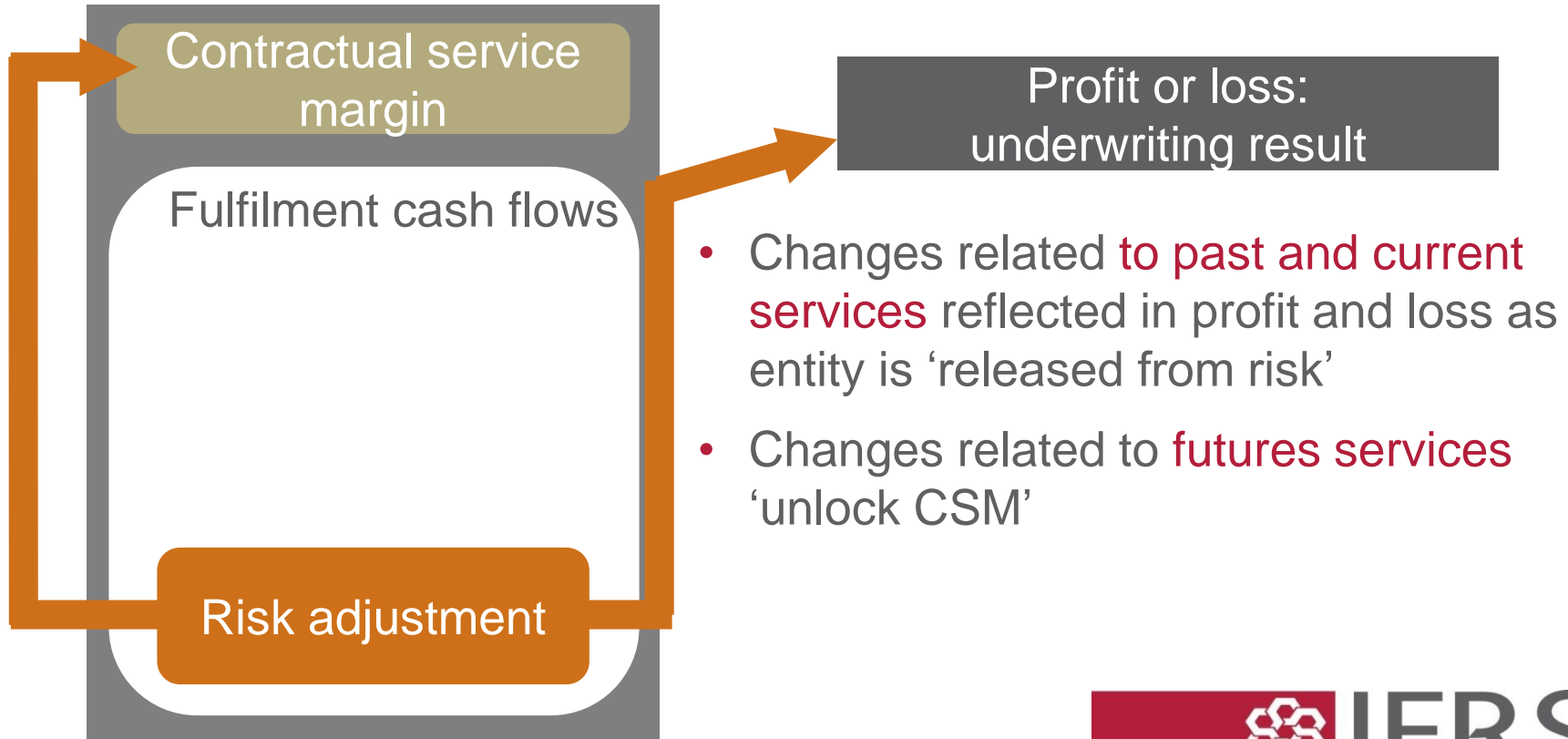
# Remeasure in subsequent periods

## *Options and guarantees*

- Updated value of the insurance contract, includes options and guarantees, consistent with market information
- Standard does not define ‘options and guarantees’, consequently changes in value of options and guarantees treated the same as other changes in cash flows and discount rates

# Remeasure in subsequent periods

## *Recognition of changes in estimates*



# Remeasure in subsequent periods

## *Recognition of changes in estimates*



- **Recognise CSM** in profit or loss as entity provides coverage:
  - **Passage of time**
  - Size and duration of contracts in force



# Remeasure in subsequent periods

## *Accretion of CSM*

- At inception, CSM is determined as a **discounted amount**
- Over time, the **effect of that discounting** should be **reversed**
- The **unwinding** of the discounting recognised at inception is referred to as **accretion**

### **BUT**

- CSM is **not a cash flow** in itself
- Consequently, board has concluded that it
  - **cannot** be remeasured, and
  - discount rate should be the **rate determined at inception**

# Remeasure in subsequent periods

## *Allocation of contractual service margin*

- Objective: allocate remaining CSM in profit or loss **over remaining coverage period** in a **systematic way** that best reflects services to be provided
- Can be achieved by **grouping contracts**
- Is **deemed to be achieved** by grouping contracts that:
  - Have cash flows entity expects will respond in **similar ways to key drivers of risk** in terms of amount and timing
  - Had **similar expected profitability**
  - Entity **adjusts the allocation** to reflect expected **duration** and **size** of remaining contracts

# Remeasure in subsequent periods

## *Need to identify effect of discretion*

- Changes in fulfilment cash flows relating to future services adjust CSM\*
- Changes in FCF arising from changes in market variables are recognised in SCI
- Discretionary changes by the entity relate to future service, so adjust the CSM (measured at the locked-in rate)
- Require entity to specify what it regards as non-discretionary (effectively the same as 2013 ED proposals which did not include requirements on how to make the distinction)

\*Change measured at locked-in rate adjusts the CSM, difference between the amount measured at the locked-in rate and the amount measured at the current rate, recognise in SCI

# Example

## *Need to identify effect of discretion*

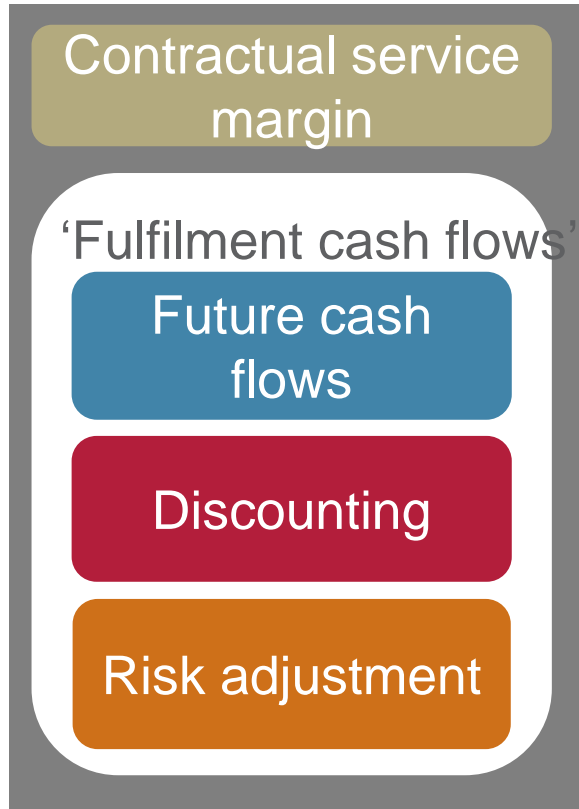
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- Entity **internally specifies return** on an **identified pool** of assets as promised return on the project
- During most recent period, pool of **assets returns 12%**, ahead of **expectation of 7%**
- Entity decides to **declare a return** to policyholders **of 8%**
- Change in the **return of assets** (12%-7%) **impacts** the discount **rate used to measure liability** (effect to SCI)
- Exercise of **discretion** (decision to pay rate 4% less than specified) **affects future service** and is taken to CSM



# The general model

IASB believes a **current value measure** of an insurance contract **provides the most useful information** about insurance contracts in the statement of financial position.



**CSM** is **adjusted by changes in estimates** and is **allocated** to profit or loss

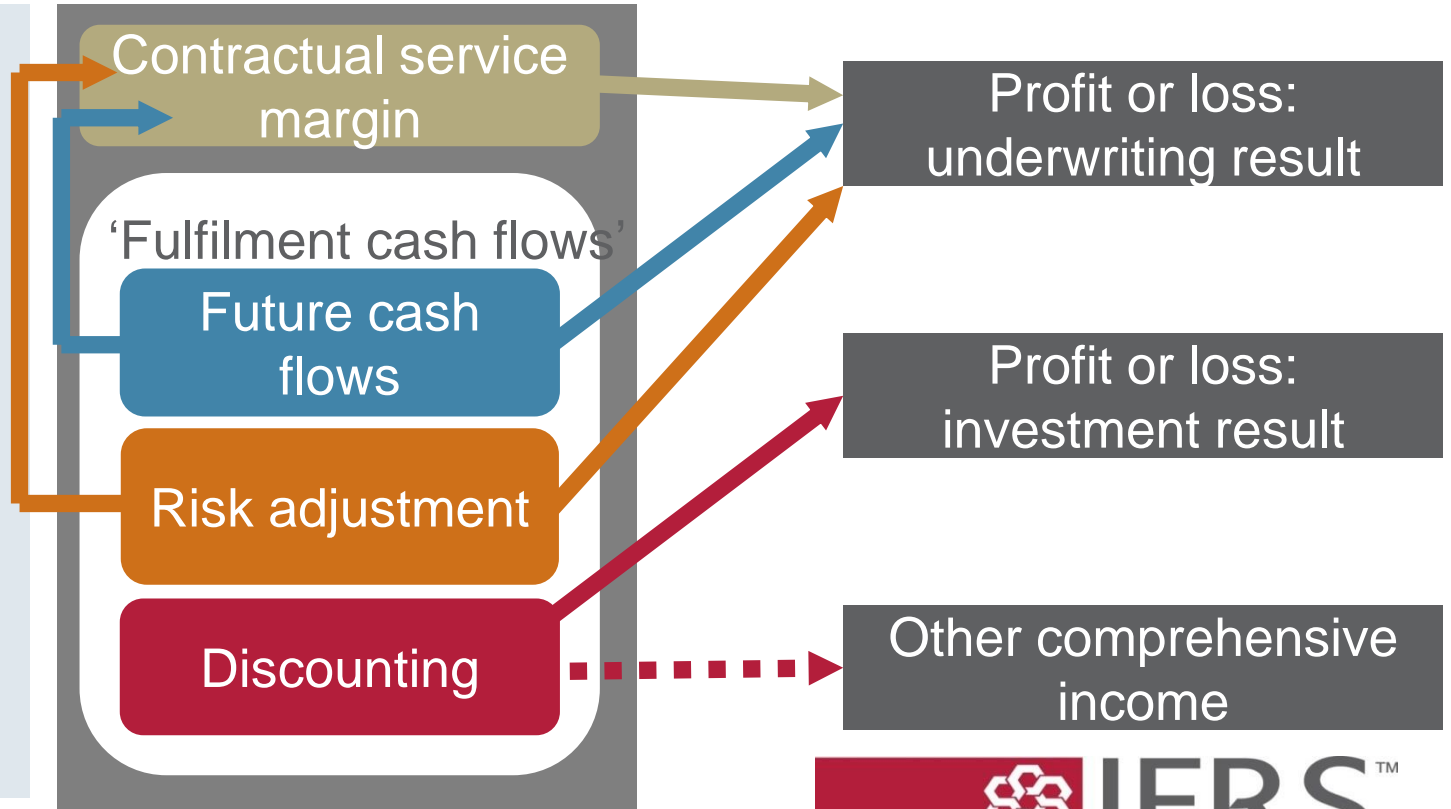
In each reporting period, an **entity** **remeasures the fulfilment cash flows** using updated assumptions about cash flows, discount rate and risk.

# The general model

## *Recognition of changes in estimates*

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The **different types of changes** in estimates are **recognised in different parts** of the financial statements.



# Thank You

