

International Financial Reporting Standards



Insurance Contracts Standard *Applying the standard for the first time*

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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

Assess options permitted by the Standard

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- **Scope options** to apply insurance contracts Standard to:
 - **Fixed fee** service contracts
 - Financial **guarantee** contracts

Assess options permitted by the Standard

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- Scope options
- Option to apply **premium allocation approach** (PAA), within PAA:
 - Option to **expense acquisition costs** if coverage period one year or less
 - Option **not to accrete interest** if coverage period one year or less
 - Option **not to discount future cash flows** expected to be paid in one year or less

- Scope options
- Option to apply premium allocation approach (PAA)
- **Variable fee approach not optional** (VFA), but within VFA:
 - **Constrained option** to recognise **effect of changes in the value of guarantees** in profit or loss **if entity uses derivatives** to mitigate financial market risk in those guarantees
 - **Option to eliminate mismatch** by measuring some assets at FVPL

Assess options permitted by the Standard

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- Scope options
- Option to apply premium allocation approach
- Options within variable fee approach
- **Presentation**: option to present effect of changes in discount rate in **profit or loss or OCI**

Applying the new Standard for the first time

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When an entity applies the Standard for the first time, it may have in-force contracts that were written many years ago. Historical data about those contracts:

- May require use of hindsight
- May not be available



- The entity can measure the fulfilment cash flows directly



- Historical data needed to:
 - Measure remaining balance of contractual service margin
 - Measure liability for remaining coverage for revenue
 - For general model. determine the discount rate at date of initial recognition for OCI, interest accretion and unlocking

Applying the new Standard for the first time – estimating CSM

The IASB has specified different approaches for estimating the contractual service margin in a way that balances comparability with the costs of obtaining historical information.

Retrospective application

When historical data is available and does not require use of hindsight

Prescribed simplified approach

When some historical data is not available, but historical information about cash flows is available or can be constructed

Liability calibrated to fair value

When historical information about cash flows is not available



General model

- Estimate CSM at initial recognition using fulfilment cash flows at beginning of earliest period presented adjusted to reflect cash flows that already occurred
- Adjust CSM at initial recognition for allocation in proportion to contract duration
- Approximate discount rates at initial recognition

Variable fee approach

- Estimate CSM at initial recognition using the fair value of underlying items at date of initial application adjusted to reflect cash flows that already occurred
- Adjust CSM at initial recognition for allocation in proportion to contract duration

- Opportunity to **fully evaluate accounting** for insurance contracts by permitting **reassessment of classifications for financial assets** under IFRS 9 based on facts and circumstances that exist at the date of initial application
- Includes **use of options available on first application** of IFRS 9

- Information about the **earliest date of initial recognition** of the **portfolios** that are **measured retrospectively**
- **Amounts** in the financial statements **determined** at transition using **simplified approach** or fair value approach, both **on transition and in subsequent periods**.
- If using the simplified approach that results in **accumulated OCI** for insurance contract **being zero**, **disclose** information of **accumulated OCI** for related financial assets measured at **FVOCI** in accordance with IFRS 9.

Thank You

