Contact(s)			
Contact(s)	**Sandra Hack**	shack@iasb.org	+44 (0)20 7246 6488
	Hans van der Veen	hvanderveen@iasb.org	+44 (0)20 7246 6464
	Mark Trench	metrench@fasb.org	+1 (0) 203 956 3455

Project **Insurance contracts**

Topic **Disclosures**

Purpose of this paper

1. This paper asks the boards to approve the revised disclosure requirements in the appendix for the forthcoming insurance contracts exposure draft.

Background

2. At the March Joint Board meeting the boards discussed disclosure requirements for insurance contracts.

3. The boards reviewed proposed minimum disclosure requirements that would supplement the disclosure objectives. Board members provided comments for the staff to consider in developing these requirements for further discussion.

4. In the meantime the staff sent out a questionnaire to the field test participants and Insurance Working Group members to gather further input on claims development tables. That input has been incorporated in the suggested disclosure requirements.

Disclosure principles

5. In March 2010 the staff proposed the following disclosure principles: **An entity shall disclose information that:**

(a) explains the characteristics of its insurance contracts;

(b) identifies and explains the amounts in its financial statements arising from insurance contracts; and

(c) helps users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

6. The boards asked the staff to clarify these disclosure objectives, considering:

(a) their relevance to providing information about the amount, timing and uncertainty of future cash flows;

(b) the disclosure objectives developed in other projects; and

(c) the appropriate level of disaggregation for disclosure requirements.

7. Some Board members suggested leaving out the requirement to explain the characteristics, because its objective is too vaguely described here and leaves too much room for diversity in practice. In response, the staff decided to drop that principle.

8. Based on Board members comments, the staff proposes the following disclosure principle:

To help users of financial statements understand the amount, timing and uncertainty of future cash flows arising from insurance contracts, an entity shall disclose qualitative and quantitative information about:

(a) **the amounts** recognised in its financial statements arising from insurance contracts; **and**

(b) **the nature and extent of risks** arising from those contracts.

Level of disaggregation

9. The staff considered whether to require a specific aggregation level, eg by business line. Eventually the staff decided to use a more principle-based approach. The proposed approach is also consistent with disaggregation levels suggested in other projects.

10. The staff proposes to use the following aggregation principle to bring consistency in the level of disaggregation both between insurers and within an insurer for different types of contract:

    (a) An entity shall consider how much detail it provides to satisfy the disclosure principles. An entity shall aggregate disclosures so that useful information is not obscured either by the aggregation of items that have significantly different insurance risk characteristics or by the inclusion of a large amount of insignificant detail.

    (b) An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

    (c) The aggregation level shall not be less than an operating segment as defined in IFRS 8 *Operating Segments*.

    (d) An appropriate disclosure level might be by type of contract and, if the insurer writes just one type of contracts, one layer below, disaggregated in a manner consistent with how the management manages the business, or by geography.

Other main changes to the disclosure requirements proposed in March 2010

11. The staff still proposes to use the existing IFRS 4 Insurance Contracts disclosures as a basis for the disclosure requirements for the forthcoming standard on insurance contracts. The staff analysed current US GAAP disclosure requirements and came to the conclusion that in principle those requirements are captured by the disclosure requirements proposed in this paper

(which are brought forward from IFRS 4 and, where necessary, supplemented or adjusted).

12. In addition to the current IFRS 4 disclosure requirements, some Board members suggested including:

(a) Disclosures of key performance information (eg source of earnings[1] for life business and ratios for non-life business, such as claims ratios[2] and combined ratios[3]). The staff will consider how to provide such information when drafting material for the presentation of the statement of comprehensive income.

(b) Disclosures on acquisition costs. Acquisition costs and their accounting treatment are relevant information to users. The staff will look at the disclosures on acquisition costs as part of drafting material for the presentation of the statement of comprehensive income.

(c) Disclosures on the regulatory impact on risk. The staff incorporated an additional disclosure, similar to a disclosure requirement proposed for pensions in the Exposure Draft *Defined Benefit Plans Proposed amendments to IAS 19*, to reflect the impact of the regulatory framework.

(d) Incorporate the IFRS 7 *Financial Instruments: Disclosures* references in the main body of the disclosure requirements. The enclosed drafting incorporates that suggestion.

13. To be consistent with the disclosure requirements developed in other projects, the staff has added:

[1] Source of earnings refers to a margin analysis that some life insurers supplement to the traditional revenue presentations.

[2] The claims ratio is incurred claims divided by earned premiums.

[3] The combined ratio is (incurred claims plus expenses) divided by earned premiums.

(a) A requirement to provide additional information if the disclosures required by the forthcoming standard do not meet the objective in a particular situation.

(b) A requirement to disclose a range of possible outcomes if the inputs would have been estimated differently within the range of reasonable judgement.

14. To be consistent with the disclosure requirements developed in other projects, the staff has dropped the requirement to disclose the accounting policies for insurance contracts and related assets, liabilities, income and expense. In accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements* and the disclosure requirements in *FASB Accounting Standards Codification*™, paragraph 235-10-05-3, first introduced by APB 22 *Disclosure of Accounting Policies,* an insurer, as any entity, should disclose, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. The staff believes it is unnecessary to repeat that requirement in a standard on insurance contracts.

Question for the boards
Do the boards agree that the forthcoming exposure draft should propose the disclosure requirements in the appendix?

Appendix: Proposed disclosure requirements

Disclosure objective

1. **To help users of financial statements understand the amount, timing and uncertainty of future cash flows arising from insurance contracts, an entity shall disclose qualitative and quantitative information about:**
    a. **the amounts**, recognised in its financial statements, arising from insurance contracts (see paragraphs 7 to 10); **and**
    b. **the nature and extent of risks** arising from insurance contracts (see paragraphs 11 to 18).
2. If the disclosures required by this standard do not meet this objective in a particular situation, an entity shall disclose whatever additional information is necessary to meet that objective.
3. An entity shall aggregate disclosure so that useful information is not obscured either by aggregation of items that have significantly different characteristics or by the inclusion of a large amount of insignificant detail.
4. An insurer shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.
5. The aggregation level shall not be less than an operating segment as defined in IFRS 8 *Operating Segments*.
6. Examples of aggregation levels that might be appropriate are:
    a. by type of contract
    b. by geography (eg country, region)

Explanation of recognised amounts

7. **An entity shall disclose information about the recognised amounts in its financial statements arising from insurance contracts, in sufficient detail to help users evaluate the timing, amount and uncertainty of future cash flows arising from insurance contracts**, including:

a. reconciliation from the opening to the closing aggregate contract balances (paragraphs 8 and 9)

b. the methods and inputs used to develop the measurements (paragraph 10)

Reconciliation of contract balances

8. To comply with paragraph 7(a), the insurer shall disclose a reconciliation from the opening to the closing balance of each of the following:

    a. liabilities arising from insurance contracts

    b. [if the boards select a risk adjustment approach] risk adjustments included in a.

    c. [residual margins] [composite margins] included in a.

    d. reinsurance assets arising from reinsurance contracts held by an insurer as cedant.

    e. [if the boards select a risk adjustment approach] risk adjustments included in d.

    f. [residual margins] [composite margins] included in d.

9. Each reconciliation required by paragraph 8 shall show each of the following, if applicable:

    a. the carrying amount at the beginning and end of the period.

    b. additional insurance liabilities or reinsurance assets arising during the period.

    c. cash paid and cash received.

    d. income and expense included in profit or loss, with separate disclosure of:

        i. [changes in risk adjustments]

        ii. release of [residual margin] [composite margin]

        iii. accretion of interest

        iv. [gains and] losses, if any, arising on initial recognition of insurance contracts [gains would arise under the

IASB's tentative decision that the residual margin at inception excludes the part of the premium needed to pay for acquisition costs.]

v. differences between actual cash flows and previous estimates of those cash flows (experience adjustments)

vi. changes in estimates of cash flows and changes in discount rates

vii. changes in estimates of credit losses on reinsurance assets.

e. items acquired from, or transferred to, other insurers.

f. net exchange differences arising on the translation of foreign currency amounts into the presentation currency.

Methods and inputs used to develop the measurements

10. To comply with paragraph 7(b), an insurer shall disclose:

a. The methods used and the processes used for determining the inputs to those methods that have the most significant effect on the measurement of the recognised amounts arising from insurance contracts. Where practicable, the insurer shall also give quantified disclosure of those inputs.

b. To the extent not covered under a, the methods and inputs used to determine:

i. the risk adjustment [including the confidence level at which it determined its risk adjustment as required by paragraph [xx][4]]

ii. estimates of policyholder dividends.

iii. discount rates.

[4] Please see the requirement proposed by IASB agenda paper 2B/FASB memorandum 45B, paragraph 9, page 10.

c. The effect of changes in inputs used to measure insurance contracts, showing separately the effect of each change that has a material effect on the financial statements.

d. A measurement uncertainty analysis for inputs that have a material effect on the measurement. If different inputs that could have reasonably been used in the circumstances would increase or decrease the measurement materially, the insurer shall disclose that fact, the effect of using those different inputs and how it calculated that effect.

Nature and extent of risks arising from insurance contracts

11. An entity shall disclose information about the nature and extent of risks arising from insurance contracts in sufficient detail to help users evaluate the timing, amount and uncertainty of future cash flows arising from insurance contracts.

12. To comply with paragraph 11, an insurer shall disclose:

a. The exposures to risk and how they arise;

b. Its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

c. Any changes in (a) or (b) from the previous period.

d. Information about the effect of the regulatory framework in which the insurer operates, for example minimum capital requirements or required interest rate guarantees.

e. Information about insurance risk on a gross and net basis, before and after risk mitigation, eg by reinsurance, including information about:

i. Sensitivity to insurance risk in relation to impact on profit or loss and equity. This shall be presented by a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the end of the reporting period; the methods and inputs used in preparing the sensitivity analysis; and any changes from the previous period in the methods and inputs used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, it may meet this requirement by disclosing that alternative sensitivity analysis.

ii. Concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area or currency). Concentrations of insurance risk may arise if an insurer has, for example:

    1. underwritten risks concentrated in one geographical area or one industry.

    2. underwritten risks that are also present in its investment portfolio, for example if an insurer provides product liability protection to pharmaceutical companies and also holds investments in those companies.

iii. Actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not got back more than ten years. An insurer need not disclose information about the development of claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

13. For each type of other than insurance risk arising from insurance contracts, an insurer shall disclose:

    a. Summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the insurer.

b. Concentrations of risk if not apparent from other disclosures. Such concentrations may arise from, for example interest rate guarantees that come into effect at the same level for an entire book of business.

14. If the quantitative information disclosed as at the end of the reporting period is unrepresentative of an insurer's exposure to risk during the period, an entity shall provide further information that is representative.

15. With regard to credit risk, an insurer shall disclose:

    a. The amount that best represents its maximum exposure to credit risk at the end of the reporting period.

    b. Information about the credit quality of reinsurance assets.

16. With regard to liquidity risk, an insurer shall disclose:

    a. Either a maturity analysis that shows the remaining contractual maturities or information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.

    b. A description of how it manages the liquidity risk resulting from its insurance liabilities.

17. With regard to market risk an insurer shall disclose:

    a. A sensitivity analysis for each type of market risk to which the insurer is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, or a sensitivity analysis, such as value-at risk, that reflects interdependencies between risk variables and uses it to manage financial risks, it may use that sensitivity analysis to meet this requirement.

    b. An explanation of the methods and main inputs used in preparing the sensitivity analysis; and

c. An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the carrying amount of the insurance contracts involved.

d. Changes from the previous period in the methods and inputs and the reasons for such changes.

e. Information about exposures to market risk arising from embedded derivatives contained in a host insurance contract, including information about the levels where these exposures start to have a material effect on the insurer's cash flows.

18. If the sensitivity analyses disclosed are unrepresentative of an insurer's exposure to risk during the period, the insurer shall disclose that fact, the reasons for those conclusions and shall provide further information that is representative.