

158. DSR-Sitzung am 28.07.2011

158_07b_IC_Taking_Stock

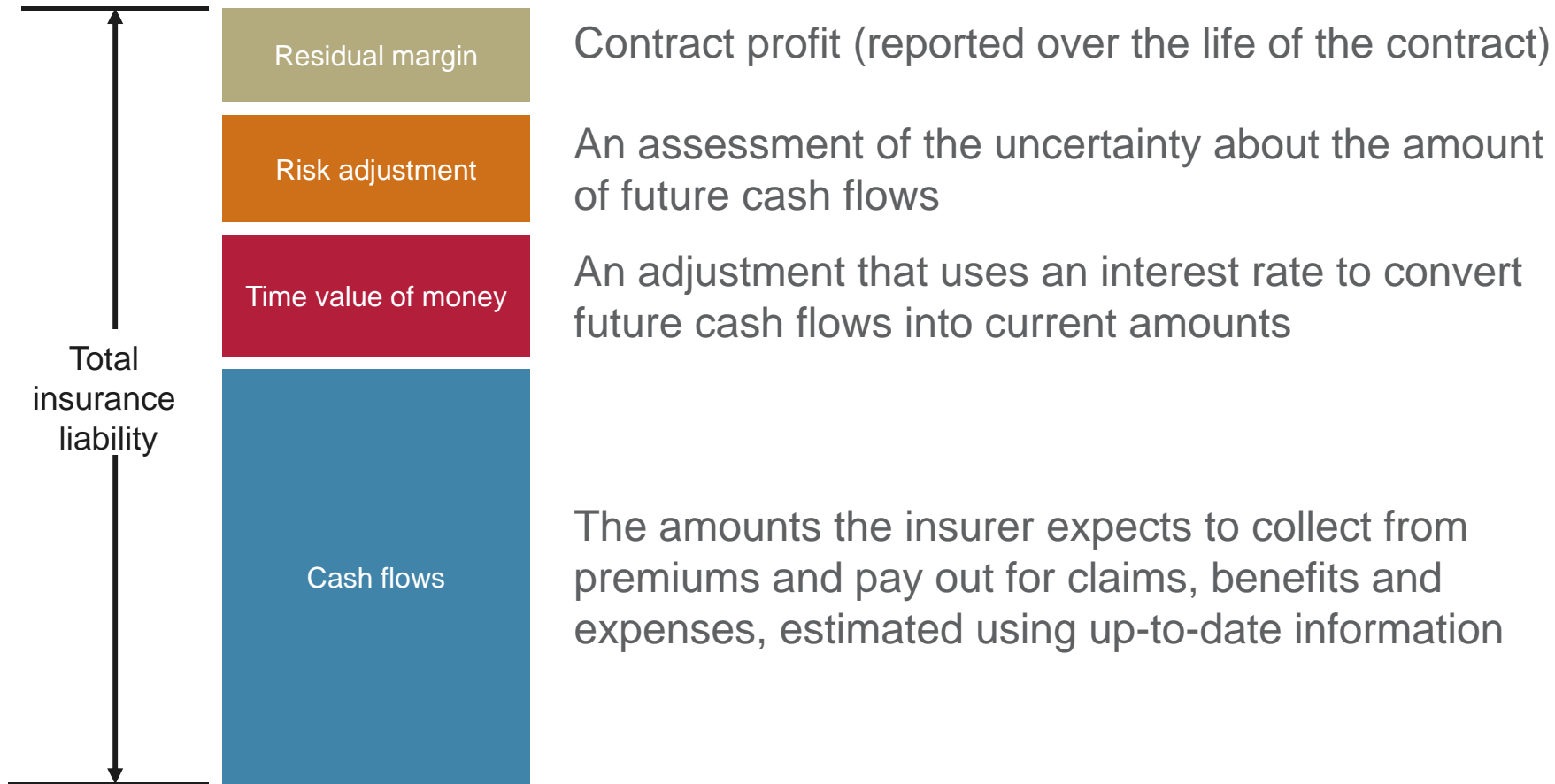
Taking stock

As at 30 June 2011

A high level overview of progress on the insurance contracts project

The views expressed in this presentation are those of the presenters,
not necessarily those of the IASB .

Where we were: The proposals in the exposure draft



Other matters: presentation, scope, unbundling and disclosure

Where we are: high level overview

Tentative decisions



- No gains at inception
- Adjust prospectively for changes in estimates of cash flows
- Include independently measured and updated risk adjustment
- Adjust for time value of money using rate that reflects characteristics of liability
- Expected value considering all relevant information
- Includes all costs directly attributable to contract activity

Where we are going: areas yet to cover

- Key decisions reached on each of the building blocks
- Areas yet to cover
 - Short duration contracts
 - Use of other comprehensive income
 - Review of unit of account
 - Disclosures
 - Transition
- (Important) details to be completed in some areas

Which cash flows?

- Residual margin
- Risk adjustment
- Time value of money
- Cash flows

ED proposal	Tentative decisions
Fulfilment cash flows	
Expected value of cash flows incurred in fulfilling the contract, considering all relevant information	<ul style="list-style-type: none"> ✓ Confirm use of expected value + Add guidance that not all possible scenarios need to be identified and quantified
Acquisition costs*	
Include only acquisition costs incremental at contract level	<ul style="list-style-type: none"> • Include all direct costs incurred in originating a portfolio of insurance contracts

* Indicates change from ED proposals

Which cash flows?

Residual margin	ED proposal		Tentative decisions	
Risk adjustment	Recognition point*			
Time value of money	Recognise when insurer is bound or first exposed to risk from contract	<ul style="list-style-type: none"> Recognise when coverage period begins Onerous test before then 		
Cash flows	Contract boundary*			
	Ends when insurer: <ul style="list-style-type: none"> No longer required to provide coverage or Can set price that fully reflects risk of particular policyholder 	<ul style="list-style-type: none"> ✓ Confirm ED proposal Add clarification: risk can be assessed at portfolio level in some cases 		
Some details yet to be resolved				

* Indicates change from ED proposals

Time value of money

- Residual margin
- Risk adjustment
- Time value of money
- Cash flows

ED proposal	Tentative decisions
Discount rate	
<ul style="list-style-type: none"> • Adjusts future cash flows for time value of money • Reflects only the characteristics of the insurance contract liability • Current and updated each reporting period 	<ul style="list-style-type: none"> ✓ Confirm discount rate ✓ Do not prescribe method +Add guidance: <ul style="list-style-type: none"> • ‘Top-down’ and ‘bottom-up’ both acceptable • Remove any factors that influence observable rates not relevant to the liability
To complete	
<ul style="list-style-type: none"> • Disclosure of the yield curve 	

Risk adjustment (IASB decisions)

Residual margin

Risk adjustment

Time value of money

Cash flows

ED proposal	Tentative decisions
Objective	
<ul style="list-style-type: none"> “The maximum amount the insurer would rationaly pay to be relieved of the risk that the ultimate cash flows exceed those expected.” 	<ul style="list-style-type: none"> “The compensation the insurer requires to bear the risk that the ultimate cash flows could exceed those expected”
Risk adjustment vs composite margin	
<ul style="list-style-type: none"> Include explicit estimate of the effects of uncertainty about future cash flows. 	<ul style="list-style-type: none"> ✓ measurement of liability should include explicit risk adjustment
To complete	
<ul style="list-style-type: none"> ? Revisit objective ? Whether to restrict permitted techniques ? Disclosures about risk adjustments ? Whether to take account of diversification benefits 	

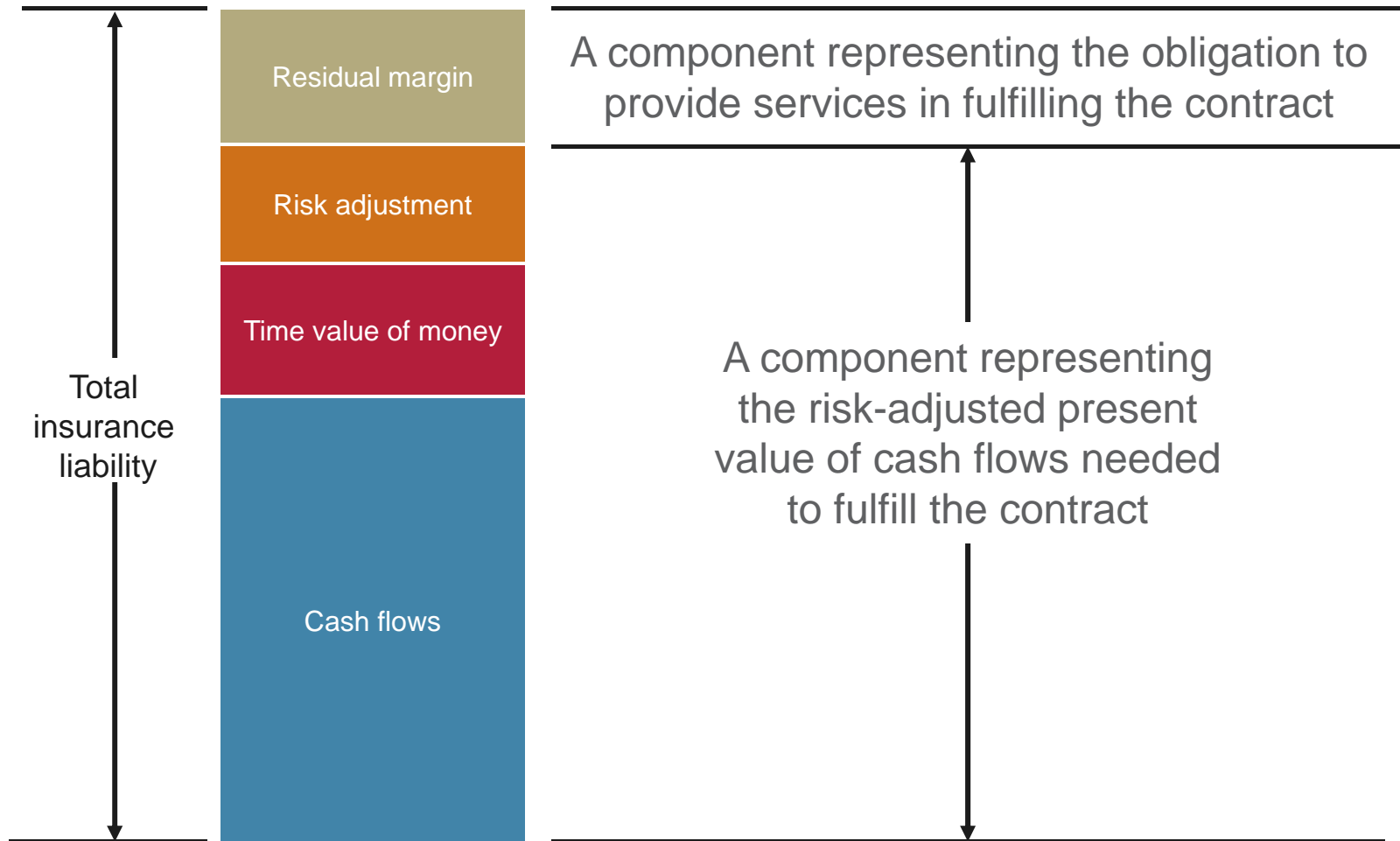
Residual margin (IASB decisions)

	ED proposal	Tentative decisions
Residual margin	Gains at inception	
Risk adjustment	<ul style="list-style-type: none"> • Include residual margin to eliminate gains at inception 	<ul style="list-style-type: none"> ✓ Confirm no gain at inception
Time value of money	Residual margin after inception: unlocking*	
Cash flows	<ul style="list-style-type: none"> • Residual margin locked-in at inception 	<ul style="list-style-type: none"> • Adjust residual margin prospectively for changes in estimates of cash flows (unlocking) • Do not unlock for risk adjustment

Residual margin (IASB decisions)

Residual margin	ED proposal		Tentative decisions	
Risk adjustment	Residual margin after inception: allocation*			
Time value of money	<ul style="list-style-type: none"> Residual margin allocated over coverage period 		Residual margin allocated: <ul style="list-style-type: none"> Over coverage period On a systemic basis that is consistent with the pattern of transfer of the services provided 	
Cash flows	To complete			
	<ul style="list-style-type: none"> ? Whether changes in discount rate adjust residual margin or are recognised in profit or loss ? Whether and how to address any accounting mismatches ? Level of aggregation 			

What do these decisions mean?



Measurement model in special cases

	ED proposals	Status of discussions
Residual margin	Participating contracts (Some details to complete)	<ul style="list-style-type: none"> ✓ Discount rate reflects dependence of cash flows on specific assets ➤ Cash flows adjusted to reflect the measurement basis of the items underlying participation*
Risk adjustment		
Time value of money	Reinsurance (Some details to complete)	<ul style="list-style-type: none"> ✓ Confirm insurer uses same estimates for reinsurance asset and underlying direct insurance liability ➤ Gains arising from reinsurance contract recognised over contract term* ➤ Losses arising from reinsurance contract recognised immediately if for past events, otherwise deferred*
Cash flows		

* Indicates change from ED proposals

How to present changes in the insurance contract liability

ED proposals

Income statement

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Risk adjustment	X
Residual margin	X
Underwriting margin	X
Experience adjustment	X
Changes in estimates	X
Underwriting result	X
Investment income	X
Interest on insurance liability	X
Net interest and investment	X
Profit or loss	X

Current status

- Tentative decision to provide information about premiums, claims and expenses
- ? Exploring whether some changes should be presented in other comprehensive income

What does the insurance contracts standard apply to?

	Tentative decisions	Issues to be resolved
Scope	<ul style="list-style-type: none"> • Confirm proposed definition of insurance contract • Financial guarantee contracts 	<ul style="list-style-type: none"> • Investment contracts with discretionary participation features • Fixed fee service contracts
Unbundling	<p>Unbundle:</p> <ul style="list-style-type: none"> • Embedded derivatives not closely related to host insurance contract • Using approach from revenue recognition for: <ul style="list-style-type: none"> • Goods and services • Some explicit account balances 	<ul style="list-style-type: none"> • Allocation of fees and charges • Unbundling for presentation • Permit or require • Prohibit when not permitted or required

Differences between IASB and FASB

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- Differences so far
 - Acquisition costs
 - Treatment of policyholder participation
 - Explicit risk adjustment, therefore residual margin
 - Scope – financial guarantee contracts
- Further possible differences
 - Other comprehensive income
 - Short duration contracts
 - Investment contracts with discretionary participation features