Staff paper

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IFRS® Interpretations Committee meeting

Date	**March 2023**
Project	**Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)**
Topic	**Updated proposed wording of the tentative agenda decision**
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Purpose of the paper

1. This addendum to Agenda Paper 4 sets out updated proposed wording of the tentative agenda decision to reflect the discussions at the Committee's meeting on 14 March 2023.

2. For ease of reading, this paper includes only a clean version of the updated proposed tentative agenda decision.

Proposed wording of the tentative agenda decision (updated)

Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)

The Committee received requests about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* to premiums receivable from an intermediary.

In the fact pattern described in the requests, an intermediary acts as a link between an insurer and a policyholder to bring about an insurance contract between them. The policyholder has paid in cash the premiums to the intermediary, but the insurer has not yet received in cash the premiums from the intermediary. The agreement between the insurer and the intermediary allows the intermediary to pay the premiums to the insurer at a later date.

When the policyholder paid the premiums to the intermediary, the policyholder discharged its obligation under the insurance contract and the insurer is obliged to provide insurance contract services to the policyholder. If the intermediary defaults, the insurer cannot force the policyholder to pay the premiums again or cancel the insurance contract.

The requests asked whether, in the submitted fact pattern, the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 or is a separate financial asset applying IFRS 9. The requests set out two views.

Under the first view (View 1), the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. Applying View 1, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, include them in the measurement of a group of insurance contracts until recovered in cash; and

b. for a group of contracts to which the premium allocation approach does apply, the insurer increases the liability for remaining coverage in IFRS 17 only when the premiums are recovered in cash.

Under the second view (View 2), the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary and determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but rather a separate financial asset. Applying View 2, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer removes the premiums from the measurement of a group of insurance contracts and, applying IFRS 9, recognises a separate financial asset; and

b. for a group of contracts to which the premium allocation approach does apply, the insurer increases the liability for remaining coverage in IFRS 17 and recognises a separate financial asset.

Applying the requirements in IFRS Accounting Standards

The Committee observed that IFRS 17 is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract. The Committee therefore considered:

a. which future cash flows are within the boundary of an insurance contract applying IFRS 17;

b. when cash flows are removed from the measurement of a group of insurance contracts; and

c. what information is being provided about credit risk.

Future cash flows within the boundary of an insurance contract applying IFRS 17

Paragraph 33 of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts an estimate of all the future cash flows within the boundary of each contract in the group. Paragraph B65 explains that future cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including premiums from a policyholder.

The Committee observed that paragraph B65 of IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and premiums to be collected through an intermediary. In applying IFRS 17, the insurer therefore includes in the measurement of a group of insurance contracts the future premiums from a policyholder to be collected through an intermediary.

The Committee next considered when the premiums that are already included in the measurement of a group of insurance contracts are removed from that measurement.

Removing cash flows from the measurement of a group of insurance contracts

Paragraph 34 of IFRS 17 specifies that cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services.

In the fact pattern described in the submissions, the insurer has not recovered the premiums in cash. The Committee observed that IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash.

Therefore, the Committee observed that, in accounting for premiums receivable from an intermediary when payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer uses its judgement to determine whether the right to receive premiums from the intermediary is a substantive right that gives rise to cash flows that are within the boundary of an insurance contract.

Considering both View 1 and View 2 as possible outcomes, the Committee next considered the implications of both views for information about credit risk.

Information about credit risk

IFRS 17 and IFRS 9 deal differently with expected credit losses from an intermediary. Regardless of which view (View 1 or View 2) an insurer applies, an insurer is required to apply all the applicable requirements in either IFRS 17 (including paragraph 131 that requires disclosure of information about credit risk that arises from contracts within the scope of IFRS 17) or IFRS 9 (and the requirements in IFRS 7 *Financial Instruments: Disclosures*) to the premiums receivable from an intermediary.

Conclusion

The Committee concluded that, subject to an insurer's judgement about whether premiums receivable from an intermediary is a substantive right that gives rise to cash flows that are within the boundary of an insurance contract, the requirements in IFRS 17 and IFRS 9 could accommodate both View 1 and View 2 and, therefore result in an insurer recognising premiums receivable from an intermediary applying either IFRS 17 or IFRS 9.

Following its analysis, the Committee considered whether to add a standard-setting project on the interaction between IFRS 17 and IFRS 9 to the work plan. The Committee noted that any such project would involve assessing whether any changes to the Standards have unintended consequences. This assessment may take considerable time and effort to complete because it would involve, among other steps, analysing a broad range of contracts (not only those set out in the fact pattern). The Committee observed that it had not obtained sufficient evidence that the outcomes of applying the two views outlined in this agenda decision would be expected to have a material effect on the information that entities report—users of financial statements will receive useful information about credit risk regardless of whether premiums receivable from an intermediary are accounted for applying IFRS 9 or IFRS 17. The Committee also considered that an insurer needs to determine whether this is a significant judgement that requires disclosure required by paragraph 122 of IAS 1 *Presentation of Financial Statements*.

Consequently, the Committee concluded that a project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. The Committee therefore [decided] not to add a standard-setting project to the work plan.