



Insurance Contracts

(Last Updated: February 2011)

The staff of the AASB have prepared this summary for information purposes only. The AASB decisions described here are tentative and do not change current accounting pronouncements. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is occasionally updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

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CURRENT AUSTRALIAN ACCOUNTING STANDARDS FOR INSURANCE CONTRACTS

Insurance contracts in Australia are currently accounted for under one of the following three accounting standards:

- AASB 4 *Insurance Contracts*;
- AASB 1023 *General Insurance Contracts*; or

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- AASB 1038 *Life Insurance Contracts*.

These Standards address the treatment of insurance contracts, including the treatment of reinsurance contracts by both the cedant and the reinsurer and the disclosures required in relation to insurance contracts. These Standards also address some aspects of the accounting for assets backing insurance liabilities, and some aspects of the accounting for non-insurance contracts and life investment contracts.

AASB ED 201 *INSURANCE CONTRACTS (INCORPORATING IASB EXPOSURE DRAFT ED/2010/8 INSURANCE CONTRACTS)*

In July 2010, the IASB published Exposure Draft ED/2010/8 *Insurance Contracts*, which aims to provide a consistent basis for accounting for such contracts. The proposals in ED/2010/8 were developed on the basis of responses the IASB received from constituents on its Discussion Paper *Preliminary Views on Insurance Contracts* (see below). The IASB's closing date for comments was 30 November 2010. In August 2010, the AASB published ED 201 *Insurance Contracts*, which incorporates ED/2010/8. The AASB's closing date for comments on ED 201 was 8 November 2010.

During the comment period for ED 201, the AASB engaged with a wide range of Australian and New Zealand constituents (see below). The AASB's and New Zealand Financial Reporting Standards Board's (FRSB) joint submission to the IASB on ED/2010/8 is available on the AASB website under [Work in Progress/Submissions from AASB](#).

The IASB commenced redeliberations on the proposals in ED/2010/8 during its joint meeting with the US Financial Accounting Standards Board (FASB) in December 2010. For more information regarding the IASB's redeliberations go to: <http://www.ifrs.org/Current+Projects/IASB+Projects/Insurance+Contracts>.

Implications for AASB 1023 and AASB 1038 of a Proposed Replacement Standard for IFRS 4 *Insurance Contracts*

ED/2010/8 proposes that IFRS 4 *Insurance Contracts* be replaced with an accounting standard that deals with general (non-life) and life insurance liabilities under the same model. Accordingly, the proposed replacement Standard for IFRS 4 as an Australian Accounting Standard would replace AASB 4, AASB 1023 and AASB 1038.

Main Features of ED/2010/8 (incorporated in AASB ED 201)

ED/2010/8 proposes a comprehensive measurement approach for all types of insurance contracts issued by insurers (and reinsurance contracts held by reinsurers), with a modified approach for some short-duration insurance contracts.

Under the proposals in ED/2010/8, an insurance contract other than a short-duration contract would be measured on the basis of the obligations and rights under the contract using the following 'building blocks':

- (a) a current estimate of the future cash flows;
 - (b) a discount rate that adjusts those cash flows for the time value of money;
 - (c) an explicit risk adjustment; and
 - (d) a residual margin.
-

For short-duration insurance contracts, a modified version of the comprehensive measurement approach would involve an entity applying:

- (a) a premium deferral model for pre-claims liabilities ('stand ready' obligations to meet valid claims for insured events that have not yet occurred); and
- (b) the 'building block' approach for claims liabilities (obligations to meet valid claims for insured events that have occurred).

The Proposals in ED/2010/8 Compared with AASB 1023 and AASB 1038

In many respects, the proposals in ED/2010/8 are broadly consistent with the current requirements in AASB 1023 and AASB 1038. Appendix A to this Project Summary provides an outline of the proposals in ED/2010/8 compared with the requirements under AASB 1023 and AASB 1038. There are, however, some key exceptions, including the proposals for:

- (a) acquisition costs;
- (b) residual margins;
- (c) the extent to which diversification benefits are included in the risk adjustment;
- (d) recognising losses on short-duration contracts that are onerous; and
- (e) contract boundaries.

Acquisition costs

Under AASB 1023, acquisition costs are generally deferred and recognised as assets, and subsequently 'amortised'. AASB 1023 permits such an approach when the costs can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods. In accordance with AASB 1038, insurers generally expense acquisition costs when incurred and recognise a part of the premium as revenue at the inception of an insurance contract to cover the incremental costs of issuing the contract.

ED/2010/8 proposes that an insurer:

- (a) include incremental acquisition costs in the present value of future cash flows under the contract; and
- (b) recognise all acquisition costs other than incremental acquisition costs as an expense when incurred.

ED/2010/8 defines incremental acquisition costs as the costs of selling, underwriting and initiating an insurance contract that would not have been incurred if the insurer had not issued that particular contract, but no other direct and indirect costs.

Residual margins

Under the proposals in ED/2010/8, an insurer would recognise a residual margin in respect of an insurance contract when the present value of expected premiums exceeds the present value of expected claims and expenses plus an appropriate risk adjustment. This approach ensures that the insurer does not recognise a 'day-one' gain on the inception of an insurance contract. In addition, ED/2010/8 proposes that an insurer recognise any residual margins as income in profit or loss over the coverage period in a systematic way that best reflects the insurer's exposure from providing insurance coverage.

In accordance with AASB 1038, a life insurer recognises a residual margin ('planned margin of revenues over expenses') such that no profit is recognised at the inception of a contract. This is similar to the residual margin proposed in ED/2010/8. In addition, AASB 1038 requires the impact of all changes in assumptions regarding future cash flows to be recognised as adjustments to planned (residual) margins and spread over the remaining contract reporting periods, except for changes in:

- (a) the estimated present value of expenses over revenues ('onerous contracts');
- (b) any subsequent reversals of (a) above; and
- (c) discount rates and related economic assumptions;

which are recognised in profit or loss in the period in which the changes occur.

Under the proposals in ED/2010/8, an insurer would recognise all the impacts of changed assumptions in profit or loss in the period in which the changes occur.

Diversification benefits included in risk margins

AASB 1023 anticipates that, for some general insurers, the risk margin for their outstanding claims liabilities as a whole may be less than the sum of the individual risk margins for each portfolio of insurance contracts, primarily as a consequence of diversification between the different portfolios. Accordingly, AASB 1023 requires risk margins to be determined on a basis that reflects the insurer's business.

Under the proposals in ED/2010/8, an insurer would estimate the risk adjustment at the level of a portfolio of insurance contracts. Therefore, the risk adjustment would reflect the effects of diversification that arise within a portfolio of insurance contracts, but not the effects of diversification between different portfolios.

Losses on short-duration contracts that are onerous

AASB 1023 requires a general insurer to assess the adequacy of any unearned premium liability in relation to insurance contracts accounted for under a premium allocation approach by considering current estimates of the present value of the expected future cash flows arising from the rights and obligations under the relevant contracts (liability adequacy test). In addition, under AASB 1023 general insurers normally apply the liability adequacy test at the 'open' portfolio level (contracts that are subject to broadly similar risks but have different inception dates), thereby ensuring that a deficiency in the unearned premium liability is only recognised when a portfolio as a whole is onerous.

Under the proposals in ED/2010/8, to determine whether insurance contracts are onerous and, if applicable, to measure the amount of the additional liability, an insurer would aggregate the relevant insurance contracts

into a portfolio and, within a portfolio, by similar date of inception. Accordingly, under the proposals in ED/2010/8, an insurer would potentially be required to recognise deficiencies (losses) in respect of its short-duration insurance contracts more frequently than it would otherwise under the approach in AASB Standards (or if it were required to apply the proposed onerous contract test to groups of contracts that are subject to broadly similar risks and managed together as a single pool – ‘portfolio of insurance contracts’ as defined in ED/2010/8).

Contract boundaries

Although not explicitly dealt with in AASB 1023 or AASB 1038, these Standards acknowledge that:

- (a) for most direct general insurance contracts the specified period of the contract is one year (paragraph 4.4.4 of AASB 1023); and
- (b) future cash flow estimates in relation to life insurance contracts take into account expected renewal premiums and lapse rates (paragraph 8.1(a) of AASB 1038).

In contrast, ED/2010/8 proposes that the boundary of an insurance contract is the point at which the insurer either:

- (a) is no longer required to provide coverage; or
- (b) has the right or the practical ability to reassess the risk of the individual policyholder and, as a result, can set a price that fully reflects that risk.

Accordingly, in circumstances where the pricing of insurance contracts is assessed at the portfolio level (because, for instance, the insurer is restricted in its ability to fully reprice at the individual contract level to reflect the specific risks of individual policyholders due to legislative constraints), under the proposals in ED/2010/8 the insurer would generally be required to account for such contracts using the comprehensive measurement model.

BACKGROUND TO THE IASB’S INSURANCE CONTRACTS PROJECT

The IASB’s predecessor organisation, the International Accounting Standards Committee (IASC), commenced a project on insurance contracts in 1997. At the time, the IASC decided that a project on insurance contracts was necessary because:

- it did not have a standard on insurance contracts, and insurance contracts were excluded from the scopes of other relevant IASC Standards (for instance, Standards on provisions, financial instruments and intangible assets);
- accounting practices for insurance contracts were diverse, and often differed from practices in other sectors; and
- users considered that it was difficult to understand insurers’ financial statements.

In 1999, the IASC published its Insurance Issues Paper. The Issues Paper differed from the existing standards on insurance that existed in many jurisdictions, including Australia. Based on the responses received on the Issues Paper, the IASC developed a Draft Statement of Principles (DSOP).

When the IASB was constituted, as the successor organisation to the IASC, it included the insurance project in its initial work plan. The IASB proceeded with the Insurance Contracts project but decided not to approve the DSOP. The IASB had planned to have an accounting standard for insurance contracts completed and ready for implementation in 2005 by those jurisdictions that had decided to adopt International Financial Reporting Standards (IFRSs) for the first time. However, due to resource constraints, the Insurance Contracts project was split into two phases (Phase I and Phase II), with the intention of completing the first phase (Phase I) in time for implementation in 2005.

Phase I of the IASB's Insurance Contracts Project

Phase I of the IASB's Insurance Contracts project was aimed at addressing the most urgent accounting issues in relation to insurance contracts. Phase I was finalised in 2004 and resulted in IFRS 4 *Insurance Contracts*. IFRS 4 was subsequently adopted by the AASB in the form of AASB 4. The objectives of the IASB in developing IFRS 4 were to:

- make limited improvements to accounting practices for insurance contracts;
- avoid requiring major changes that Phase II of the Insurance Contracts project might reverse; and
- require an insurer to disclose information about the insurance contracts to which they are exposed.

IFRS 4 permits most previous accounting practices under domestic accounting requirements for insurance contracts to continue. IFRS 4 also exempts insurers from the hierarchy of criteria specified in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which other entities must apply in developing accounting policy when there is no specific IFRS that applies. One criterion is compliance with the IASB's *Framework for the Preparation and Presentation of Financial Statements*, including the need for financial statements to provide relevant and reliable information. This exemption was a highly unusual step and the IASB contemplated it only as part of an orderly and relatively swift transition to Phase II.

Phase II of the IASB's Insurance Contracts Project

The IASB is currently undertaking Phase II of its Insurance Contracts project. Phase II addresses the recognition, measurement and disclosure requirements for all types of insurance contracts, thereby providing a basis for an accounting standard that will replace IFRS 4. The IASB decided that it is not appropriate to leave IFRS 4 in place indefinitely because:

- it permits too much diversity in practice. For instance, IFRS 4 requires an entity to recognise insurance liabilities but does not include initial recognition or comprehensive measurement requirements;
- it permits practices that are arguably not suited to providing relevant and reliable information to users;
- some of the practices it permits have developed in a piecemeal fashion over many years and do not provide a coherent framework for resolving emerging issues, including accounting for new types of insurance contracts;
- in some cases, accounting for insurance contracts has been influenced by regulatory concerns and this has sometimes resulted in treatments that do not distinguish clearly between matters which are of

an accounting nature (for instance, what assets and liabilities does an insurer hold?) and matters which are of a management and/or regulatory nature (for instance, what assets and liabilities should an insurer hold?); and

- some existing practices are inconsistent with the practices used by other entities, particularly other financial institutions such as banks and fund managers. Accordingly, these practices do not facilitate the provision of comparable information that is useful for users. In addition, these practices potentially diminish the internal consistency of the financial statements of entities that provide a range of financial services and/or products, including insurance contracts.

IASB's Insurance Working Group

In September 2004, the IASB created the Insurance Working Group (IWG) to provide input and feedback regarding the key issues on accounting for insurance contracts. The IWG comprises senior executives, analysts, actuaries, auditors and regulators working in the insurance industry in various jurisdictions. The Australian representative on the IWG is Mr Tony Coleman (Director, Lonergan Edwards & Associates).

IASB's Discussion Paper *Preliminary Views on Insurance Contracts*

In May 2007, the IASB released the Phase II Discussion Paper *Preliminary Views on Insurance Contracts*. The key features of the Discussion Paper are:

- it does not distinguish between general insurance contracts and life insurance contracts; both would be measured using the same measurement model;
- it proposes a current exit value model to measure insurance liabilities and reinsurance assets. The current exit value of an insurance liability is defined as the amount the insurer would expect to pay at the reporting date to immediately transfer its remaining contractual rights and obligations under an insurance contract to another entity;
- current exit value is measured using three 'building blocks': current estimates of future cash flows, current market discount rates, and risk margins and, if appropriate, service margins. For short-duration contracts, an unearned premium measurement model, combined with a liability adequacy test, may be an appropriate approximation of the current exit value;
- risk margins are determined for a portfolio of insurance contracts that are subject to broadly similar risks and are managed together as a single portfolio (risk margins do not allow for diversification between portfolios); and
- future premiums under existing insurance contracts that the policyholder must pay to retain guaranteed insurability are recognised as part of the related insurance liability.

In May 2007, the AASB issued Invitation to Comment *Request for Comment on IASB Discussion Paper Preliminary Views on Insurance Contracts*, requesting constituents' comments on the IASB's proposals.

In August 2007, the FASB issued Invitation to Comment *An FASB Proposal: Accounting for Insurance Contracts by Insurers and Policyholders*, which included the IASB Discussion Paper *Preliminary Views on*

Insurance Contracts. The FASB issued the Invitation to Comment to gather information from its constituents to help decide whether the FASB should undertake a comprehensive project on accounting for insurance contracts with the IASB.

Constituent Responses to the IASB's Discussion Paper

A number of key and consistent themes were evident in the responses to the IASB's Discussion Paper, including:

- respondents generally agreed that the three 'building blocks' provided a useful framework for the measurement of insurance liabilities and largely supported the main aspects of the 'building blocks': using current estimates of cash flows, using expected value rather than a single point outcome, including a risk margin and reflecting the time value of money. However, some respondents, mainly from the United States, did not support the use of risk margins or discounting cash flows;
- most respondents did not support the use of a hypothetical transfer notion as the basis for the measurement attribute but preferred a notion based on settlement in the ordinary course of business;
- few respondents supported the recognition of profit at inception. In addition, a number of respondents noted that, contrary to the IASB's expectation, measurement of insurance liabilities at current exit value might give rise to 'day-one' profits;
- many respondents expressed concern about how a market risk margin might be estimated;
- most respondents did not understand the rationale for the service margin described in the Discussion Paper, and most did not believe users would benefit from the separation of the risk margin from the service margin;
- most respondents did not support the use of market consistent cash flows for determining servicing costs, but considered that insurers should use entity-specific cash flows for estimating service costs;
- most respondents opposed the proposal that the carrying amount of insurance liabilities should reflect the credit characteristics of those liabilities;
- most respondents supported the proposal that the discount rate should reflect the characteristics of the insurance liabilities, not those of the assets backing those liabilities;
- most respondents did not support the guaranteed insurability test, although they supported the notion of recognising future premiums under existing insurance contracts;
- most respondents indicated that the measurement of a participating insurance contract should include all cash flows from the contract, without any distinction between participating and non-participating elements; and
- most respondents viewed premiums as predominantly revenue in nature rather being in the nature of a deposit.

The IASB began analysing the responses to the Discussion Paper in February 2008. In October 2008, the FASB decided to participate in the Insurance Contracts project. Accordingly, the project is currently being

conducted as a joint IASB/FASB project. However, the Insurance Contracts project is not part of the IASB's and FASB's Memorandum of Understanding (MoU).

While the Insurance Contracts project is being conducted as a joint IASB/FASB project, both Boards deliberated on some issues separately and reached different tentative views on a number of topics.

As noted above, the IASB has published ED/2010/8. Rather than publish ED/2010/8 as an Exposure Draft, the FASB has decided to issue a Discussion Paper to further solicit input from constituents. Accordingly, in September 2010 the FASB issued for public comment the Discussion Paper *Preliminary Views on Insurance Contracts*. The FASB's Discussion Paper includes a comparison of the proposals in ED/2010/8 with:

- (a) alternative preliminary views of the FASB; and
- (b) current guidance in Topic 944, Financial Services – Insurance, of the *FASB Accounting Standards Codification*.

The FASB's Discussion Paper was open for public comment until 15 December 2010.

AASB's DUE PROCESS

IASB's Discussion Paper

In June 2007, the AASB held roundtable discussions in Sydney and Melbourne to discuss the IASB's Discussion Paper with Australian constituents. Mr Warren McGregor and Ms Tricia O'Malley, both IASB members, and Mr Peter Clark, the IASB's Senior Project Manager responsible for the insurance project at the time, attended these roundtable discussions. The roundtable discussions provided an opportunity for Australian constituents to discuss the IASB's preliminary views. Overall, there appeared to be general support for the model proposed in the IASB's Discussion Paper.

Further feedback was received from constituents via submissions made to the AASB and from consultation with the AASB's Insurance Project Advisory Panel (see below). The AASB's submission to the IASB on the Discussion Paper is available on the AASB website under [Work in Progress/Submissions from AASB](#). **ED 201 Insurance Contracts**

In light of the similarities between the current Australian and New Zealand Accounting Standards on insurance contracts, and the Australian/New Zealand Convergence project (<http://www.aasb.gov.au/Work-In-Progress/Projects/Australian-New-Zealand-Convergence-Project.aspx?preview=true>), the AASB and New Zealand FRSB decided that they should make a joint submission to the IASB on ED/2010/8.

In the interests of encouraging input directly to the IASB, and to help inform the AASB and FRSB in formulating its comments to the IASB, the AASB and FRSB held roundtable discussions on the proposals in ED/2010/8 in Sydney, Melbourne and Auckland on 29 October 2010. Mr Warren McGregor (IASB member) attended the discussions involving constituents located in Melbourne and Auckland. Appendix B to this Project Summary provides a summary of the roundtable discussions. AASB and FRSB staff have also been involved in preliminary discussions with representatives of some public sector/public benefit entities,

including the New Zealand Accident Compensation Commission and the New Zealand Earthquake Commission, regarding the potential implications of the proposals in ED 201 for these types of entities.

The AASB and FRSB will continue to liaise with the Australian and New Zealand insurance industry, the Insurance Project Advisory Panel and other Australian constituents who may be impacted by the development of a new accounting standard for insurance contracts.

In line with the AASB's policy of adopting IFRSs, a new IFRS for insurance contracts would form the basis for an Australian Accounting Standard that will replace the current suite of insurance standards (AASB 4, AASB 1023 and AASB 1038). Nevertheless, when the final standard on insurance contracts is issued by the IASB, the AASB must approve the final standard before it can be issued in Australia.

AASB's INSURANCE PROJECT ADVISORY PANEL AND FRSB'S INSURANCE WORKING GROUP

The Panel and Working Group were established to provide the AASB and FRSB with input and feedback from key constituents with relevant experience of the insurance industry. The Panel and Working Group are currently made up of representatives of the Australian and New Zealand insurance industries, including members of the accounting and actuarial professions. AASB and FRSB staff liaise with members of the Panel and Working Group on issues before presenting them at AASB and/or FRSB meetings and occasionally members of the Panel and/or Working Group are invited to present on particular issues at AASB and/or FRSB meetings. The purpose of this liaison is to ensure that both practical and technical aspects are considered in developing proposals.

AASB CONTACT INFORMATION

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Outline of IASB ED/2010/8 *Insurance Contracts* compared with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*

Please note: The subject headings are based on the headings in ED/2010/8 and the requirements identified in the table are highly abbreviated and should not be taken as a complete representation.

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Scope	<p>Contracts that transfer significant insurance risk</p> <p>Financial instruments containing a discretionary participation feature [paragraph 1]</p> <p>Among other things, fixed fee service contracts that have the primary purpose of providing services are excluded [paragraph 4]</p>	<p>Contracts that transfer significant general insurance risk</p> <p>[AASB 4 Appendix A Defined terms]</p>	<p>Insurance contracts and financial instruments with a discretionary participation feature regulated under the <i>Life Insurance Act 1995</i> and similar contracts issued by entities operating outside Australia</p> <p>Life investment contracts, which means a contract regulated under the <i>Life Insurance Act 1995</i> but which does not meet the definition of a life insurance contract in this Standard, and similar contracts issued by entities operating outside Australia</p> <p>[Paragraphs 2.1, 2.1.1 and section 20 of AASB 1038, and AASB 4 Appendix A Defined terms]</p>	<p>The scopes are similar, except that:</p> <ul style="list-style-type: none"> * life investment contracts are probably covered by IAS 39 and IFRS 9 – so the scope of ED/2010/8 may be narrower in this respect than AASB 1023 and AASB 1038; * there may be financial instruments containing a discretionary participation feature that are not regulated under the <i>Life Insurance Act 1995</i> and are not similar contracts issued by entities operating outside Australia – so the scope of ED/2010/8 may be broader in this respect than AASB 1023 and AASB 1038 <p>AASB 4 (and IFRS 4) include many fixed fee service contracts (such as roadside assistance) that appear to be scoped out of ED/2010/8</p>

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Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Unbundling	Unbundle components not closely related to insurance coverage and apply other relevant IFRSs (this would include deposit components and embedded derivatives) [paragraphs 8 to 11]	Not specifically dealt with and unlikely to be relevant	Unbundling is permitted if the insurer can measure the deposit component separately. Unbundling is prohibited if the deposit component cannot be measured separately [paragraphs 2.3.1 to 2.3.4]	Unbundling is generally only relevant for life insurance contracts sold in Australia five or more years ago Some Australian life insurers still sell bundled products in overseas markets
Embedded derivatives	Account separately for embedded derivatives not closely related to the host insurance contract (using IAS 39/IFRS 9) [paragraph 12]	Not specifically dealt with and unlikely to be relevant	Life investment contracts are the contracts most likely to contain embedded derivatives and these are required to be accounted for at FVTPL where this is possible under AASB 139	A 'deposit' component unbundled from a life insurance contract might also have an embedded derivative (such as a link to an index) that would be treated under AASB 1038 as a life investment contract or, where the deposit component includes a discretionary participation feature, would be treated as a separate life insurance contract
Contract recognition	Recognise a liability (or asset) from earlier of the time when the insurer is: * bound by the contract terms * first exposed to risk under the contract [paragraphs 13 to 15]	'Attachment date' is when the insurer accepts the risk [paragraph 19.1]	Not specifically addressed	ED/2010/8 proposal and notion of 'attachment date' for general insurance contracts are likely to be the same in practice ED/2010/8 proposal may cause life insurers to bring forward some liability recognition

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Initial contract measurement	<p>PV of expected fulfilment cash inflows and outflows to fulfil contract, adjusted for uncertainty of amount and timing; plus a residual margin that eliminates any gain at inception</p> <p>[paragraph 17]</p>	<p>Pre-claims liability – ‘unearned premium’ is deferred on the balance sheet – also see subject heading Pre-claims liability for short-duration contracts</p> <p>Claims liability is PV of expected cash inflows and outflows to fulfil contract, adjusted for inherent uncertainty in central estimate</p> <p>[paragraphs 5.1 and 7.1]</p>	<p>PV of expected cash inflows and outflows to fulfil contract, plus planned margin that eliminates any gain at inception; or, if not materially different, the accumulated benefit after allowing for acquisition costs expected to be recouped</p> <p>[paragraph 8.1]</p>	<p>AGAAP general insurance claims liability measurement and life insurance liability measurement are similar to the ED/2010/8 proposals in terms of using PV of future cash flows, margins for uncertainty and not permitting day one gains for direct insurance</p> <p>The proposed residual margin is similar to the planned margin under AASB 1038, but AASB 1023 is probably better described as having a ‘composite margin’ (risk margin plus residual margin)</p> <p>The AASB 1023 premium deferral approach to pre-claims liabilities is highly similar to the ED/2010/8 approach to short-duration contracts</p>

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Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Residual margin unit of account	Residual margin at the portfolio of contracts level and, within a portfolio, by similar date of inception and coverage period [paragraph 20]	Not directly relevant, but the unit of account more generally is by portfolio (contracts subject to broadly similar risks and managed together as a single portfolio) – often based on APRA categories [for example, see paragraph 9.1]	Not directly relevant, but the unit of account more generally is by group of related products, being products that have substantially the same contractual terms and were priced on the basis of substantially the same assumptions [for example, see paragraph 8.6.2]	The ED/2010/8 proposal is consistent with a general theme in recent IASB EDs (such as ED/2009/12 on financial asset impairment) that date of inception is important in determining the relevant unit of account. This is kind of 'closed portfolio' approach may not always match the manner in which life insurers do business
Future cash flows	Incremental cash flows for a portfolio that: * are explicit, unbiased, probability-weighted estimates; * reflect the perspective of the entity but, for market variables, are consistent with observable market prices; * reflect all available information at the measurement date [paragraph 23]	Use the central estimate, being the mean of the distribution of possible cash flow scenarios [paragraphs 5.1.4 and 5.1.5]	Assumptions need to be best estimates [paragraphs 8.1, 8.1.5 and 8.1.6]	AGAAP is less detailed, but practice is probably close to the ED/2010/8 proposals

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Contract boundary	<p>The point at which the insurer is either;</p> <ul style="list-style-type: none"> * no longer required to provide coverage; or * has the right or practical ability to reassess risks and pricing <p>[paragraphs 26 to 29]</p>	<p>Not explicitly dealt with, although there is acknowledgment that most direct insurance contracts are annual</p> <p>[paragraphs 4.3 and 4.4.4]</p> <p>Inwards reinsurance business is accounted for over the indemnity period</p> <p>[paragraph 4.3]</p>	<p>Future cash flow estimates take into account expected renewal premiums/lapse rates</p> <p>[paragraphs 8.1]</p>	<p>AGAAP for (non-health) general insurance and life insurance is consistent with the ED/2010/8 proposals</p> <p>Australian health insurers may pose issues because most of their premiums are renewable each month and they are legally bound to:</p> <ul style="list-style-type: none"> * accept policyholders wishing to renew * accept new policyholders * must offer the same prices to any renewing policyholder or policyholder from another insurer who has had a similar policy; * can only adjust pricing approved by government <p>The issue involves determining the extent to which requirements outside explicit terms of a contract (such as some legal requirements) form part of the contract terms</p>

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Discount rate	<p>Time value consistent with observable current market prices for instruments with similar cash flows and incorporating timing and currency, plus adjustment for liquidity risks</p> <p>If the cash flows of an insurance contract do not depend on the performance of specific assets, the discount rate reflects the yield curve for instruments that expose the holder to no or negligible credit risk</p> <p>[paragraphs 30 to 34]</p>	<p>Discount outstanding claims liabilities for time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of obligations</p> <p>[paragraph 6.1]</p>	<p>To the extent benefits are not contractually linked to the performance of assets held, discount for time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of obligations.</p> <p>To the extent benefits are contractually linked to the performance of assets held, discount using rates based on market returns on assets backing liabilities</p> <p>[paragraphs 8.7 and 8.8]</p>	<p>AGAAP and ED/2010/8 proposed discount rates are similar, however, the proposals offer less scope for having discount rates that allow an offset to the change in values of assets backing annuity contracts</p> <p>The 'contractually-linked' business referred to in AASB 1038 would probably either be:</p> <ul style="list-style-type: none"> * unbundled from life insurance contracts; or * be life investment contracts; and treated under other IAS 39 and IFRS 9 <p>In practice, Australian actuaries often factor a liquidity adjustment into the risk-free discount rate, particularly for life business</p>
Risk adjustment	<p>Maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate cash flows exceed those expected</p> <p>[paragraph 35 and B67 to B103]</p>	<p>Risk margin required to allow for the inherent uncertainty in the central estimate – often done using a probability of adequacy of 75% or more</p> <p>[paragraphs 5.1 and 9.1.2]</p>	<p>Risk is generally built into the assumptions underlying the cash flow estimates</p> <p>[paragraph 8.1]</p>	<p>Appendix B of ED/2010/8 includes 'confidence levels' (which in Australia tend to be known as 'probabilities of adequacy') as one technique for determining a risk adjustment</p>

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Risk adjustment unit of account	Reflect the effects of diversification that arise within a portfolio, but not between portfolios [paragraphs 37]	Can reflect the effects of diversification that arise between portfolios [paragraph 5.1.9]	Not addressed	ED/2010/8 proposal has the potential to increase the risk margins for general insurers that are well diversified between portfolios APRA (and the EU insurance regulators) regulates on the basis of diversification between portfolios
Non-performance risk	Contract liability must not incorporate non-performance risk [paragraph 38]	Not specifically dealt with and unlikely to be relevant	Not specifically dealt with and unlikely to be relevant	In the Australian regulatory environment own credit risk would generally not differ between insurers to the extent that it would have material impact on the measurement of insurance liabilities
Acquisition costs	Expense, except for incremental costs, which are included in PV of contract liability (or asset) cash flows Incremental acquisition costs are selling, underwriting and initiating costs that would not have been incurred if the insurer had not issued that particular contract [paragraph 39 & Appendix A]	Defer and recognise as assets where they can be reliably measured and it is probably they will give rise to future premium revenue in subsequent periods Amortise systematically in accordance with the expected pattern of the incidence of risk [paragraph 8.1]	Recognise as expenses as incurred Offset by identifying a portion of planned margins included in insurance liabilities that relate to recovery of acquisition costs [paragraphs 8.1.7 and 8.1.8]	Acquisition costs under AGAAP include far more than 'incremental acquisition costs' Accordingly, growing insurance businesses will be more likely to show initial losses than contracting businesses under the ED/2010/8 proposals

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Portfolio transfer	<p>Measure portfolio acquired at higher of:</p> <ul style="list-style-type: none"> * consideration received, with excess of PV of fulfilment cash flows being the residual margin; and * PV of fulfilment cash flows (if that exceeds consideration, show a loss) <p>[paragraph 40]</p>	<p>Measure acquired insurance liabilities and assets at fair value</p> <p>Insurers may present in expanded format showing the liability measured in accordance with accounting policies applied to other contracts and an intangible asset (being the difference between the liability measured using the 'normal' policies and the fair value of rights acquired and obligations assumed</p> <p>[paragraph 13.3.1]</p>	<p>Measure acquired insurance liabilities and assets at fair value</p> <p>Insurers may present in expanded format showing the liability measured in accordance with accounting policies applied to other contracts and an intangible asset (being the difference between the liability measured using the 'normal' policies and the fair value of rights acquired and obligations assumed</p> <p>[paragraph 13.1.1]</p>	<p>AASB 1023 also deals with portfolio transfers where the past claims remain with the vendor, and these are treated by the vendor and buyer as reinsurance business</p>
Business combination	<p>Measure portfolio acquired at higher of:</p> <ul style="list-style-type: none"> * fair value, with excess of PV of fulfilment cash flows being the residual margin; and * PV of fulfilment cash flows (if that exceeds consideration, adjust to goodwill) <p>[paragraph 42]</p>	As above	As above	

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
<p>Initial outwards reinsurance contract measurement</p>	<p>PV of fulfilment cash flows, including consideration of non-performance risk</p> <p>If PV less than zero, establish a residual margin</p> <p>If PV greater than zero, recognise a gain, which in some cases will offset an upwards revision to claims liabilities</p> <p>[paragraphs 43 to 45]</p>	<p>Recognise reinsurance premiums as expenses from the attachment date over the period of indemnity, reinsurance recoveries as income</p> <p>Recognise claim recoveries not yet received as an asset discounted on the same basis as for claims liabilities</p> <p>Impair claim recovery assets if there is objective evidence and the impact can be reliably measured</p> <p>[paragraphs 10.1 to 11.1.3]</p>	<p>Recognise reinsurance premiums as expenses, claim recoveries as income and claim recoveries not yet received as an asset</p> <p>[paragraph 6.1]</p>	<p>The gain that might be recognised in some cases under ED/2010/8 seems inconsistent with prohibiting day one gains on direct insurance contracts</p> <p>The IASB thinks reinsurance gains will be rare (although that's not necessarily the case in Australia and New Zealand) and ironically they may be more likely under ED/2010/8 proposals because they mainly arise from the reinsurer having greater diversification, yet direct insurers would be restricted to diversification within portfolios</p> <p>The IASB's logic is that there cannot be a 'negative residual margin' (on the balance sheet) so a gain should be recognised</p> <p>Reinsurance gains are not explicitly addressed in AASB 1023 or AASB 1038</p> <p>The impairment of reinsurance claim recoveries under AASB 1023 is consistent with the incurred loss model, and the ED/2010/8 proposals are consistent with the IASB's proposed expected loss model</p>

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Subsequent contract measurement	<p>Re-measure PV of fulfilment cash flows at each reporting date, reflecting current estimates of cash flows, discount rates and the risk adjustment, plus the remaining residual margin</p> <p>Systematically recognise residual margin over coverage period:</p> <ul style="list-style-type: none"> * based on passage of time; but * based on expected pattern of claims and benefits if that differs significantly from the passage of time <p>as at the end of each reporting period</p> <p>[paragraph 47, 48, 50 to 53]</p>	<p>Pre-claims liability – also see subject heading Initial contract measurement</p> <p>Re-measure claims liability as PV of expected cash inflows and outflows to fulfil contract, adjusted for inherent uncertainty in central estimate at each reporting date</p> <p>[paragraph 5.1]</p>	<p>Re-measure PV of expected cash inflows and outflows to fulfil contract at each reporting date, plus planned margin that eliminates any gain at inception; or, if not materially different, the accumulated benefit after allowing for acquisition costs expected to be recouped</p> <p>[paragraph 8.1]</p>	<p>ED/2010/8 and both AASB Standards require re-measurement of cash flows and risk margins at each reporting date</p>
Subsequent reinsurance contract measurement	<p>Update measurement of PV of fulfilment cash flows and for changes in reinsurer's non-performance risk</p> <p>[paragraph 49]</p>	<p>Impair claim recovery assets if there is objective evidence and the impact can be reliably measured</p> <p>[paragraphs 10.1 to 11.1.3]</p>	<p>Not specifically dealt with and unlikely to be relevant</p>	

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
<p>Pre-claims liability for short-duration contracts</p>	<p>Short duration = coverage period approximately one year or less, with no (remaining) embedded option</p> <p>Initially measure at amount of premiums received less incremental acquisition costs</p> <p>Subsequently reduce over coverage period:</p> <ul style="list-style-type: none"> * based on passage of time; but * based on expected pattern of claims and benefits if that differs significantly from the passage of time <p>Accrete interest on the pre-claims liability using the time value discount rate</p> <p>If PV of fulfilment cash flows exceeds remaining liability (deferred premiums), recognise the loss immediately</p> <p>[paragraphs 54 to 60]</p>	<p>Pre-claims liability – see subject headings Initial contract measurement and Pre-claims liability for short-duration contracts measured at amount of deferred premium</p> <p>Deferred premium recognised over the contract period in accordance with the pattern of the incidence of risk expected</p> <p>[paragraph 4.3]</p> <p>Liability adequacy test required – if the PV of expected cash flows exceeds unearned premium, a loss is recognised immediately</p> <p>[paragraph 9.1]</p>	<p>Not relevant</p>	<p>The AASB 1023 premium deferral approach to pre-claims liabilities is highly similar to the ED/2010/8 approach to short-duration contracts</p> <p>A key difference is the ED/2010/8 proposal that interest be accreted to the deferred premiums, which is based on the theory that policyholders are helping to fund the insurer by paying premiums in advance</p>

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Instruments with discretionary participation features	<p>Boundary is up to the point at which the contract holder no longer has rights to discretionary participation feature</p> <p>Other proposals apply even though the contracts don't transfer significant insurance risk, except that the residual margin is systematically recognised over the contract life:</p> <ul style="list-style-type: none"> * based on passage of time; but * based on fair value of assets under management if that differs significantly from the passage of time <p>[paragraphs 62 to 66]</p>	Not relevant	<p>Apply the same requirements as for other life insurance contracts, and:</p> <ul style="list-style-type: none"> * participating benefits vested in policyholders or allocated and unvested are expenses * participating benefits vested that remain payable are included in policyholder liabilities * allocated but unvested participating benefits are recognised in an unvested policyholder benefits liability <p>[paragraphs 8.9 and 9.1 to 9.2.5]</p>	The ED/2010/8 proposals and AASB 1038 requirements are likely to have similar outcomes
Derecognition	<p>When obligation specified in contract is extinguished, and the insurer is no longer at risk</p> <p>[paragraph 67]</p>	Not specifically dealt with	Not specifically dealt with	The ED/2010/8 proposal is unlikely to cause any change in practice

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Project Summary

<i>Subject</i>	<i>ED/2010/8</i>	<i>AASB 1023</i>	<i>AASB 1038</i>	<i>Comment</i>
Balance sheet presentation and related disclosure	<p>Each portfolio as a single asset or liability</p> <p>Reinsurance – show gross</p> <p>Pool of assets underlying unit-linked contracts – show separate item</p> <p>Portion of unit-linked liabilities linked to pool of assets [paragraphs 69 to 71]</p>	<p>Central estimate of claims incurred</p> <p>Component related to risk margin</p> <p>Percentage risk margin for claim liability</p> <p>Probability of adequacy for claims liability</p> <p>How diversification of risks has been allowed for</p> <p>Process used to determine which assets back general insurance business</p> <p>Reinsurance – show gross [paragraph 17.2]</p>	<p>Reinsurance – show gross</p> <p>Disaggregated information by statutory fund and by unit-linked versus non-unit linked, including:</p> <ul style="list-style-type: none"> * investment assets * life insurance liabilities * retained earnings * regulatory solvency position <p>Process used to determine which assets back life insurance business</p> <p>Retained earnings:</p> <ul style="list-style-type: none"> * wholly attributable to shareholders * allocation between policyholders and shareholders is yet to be determined <p>[paragraph 17.4 to 17.11, and 18.2]</p>	<p>Many of the AASB 1038 disclosures relate to the manner in which Australian life insurers are required to conduct business</p>

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Income statement presentation and related disclosure	<p>Underwriting margin, showing separately:</p> <ul style="list-style-type: none"> * change in risk adjustment * release of residual margin <p>Losses on portfolio transfers</p> <p>Gains on reinsurance</p> <p>Losses on initial insurance contract recognition</p> <p>Non-incremental acquisition costs</p> <p>Differences between actual cash flows and estimates (experience adjustments)</p> <p>Changes in estimates (cash flows and discount rates)</p> <p>Reinsurance impairments</p> <p>Separately for short-duration contracts accounted for using a deferred premiums – underwriting margin disaggregated by premiums, claims, expenses, and acquisition cost amortisation</p> <p>Reinsurance – show gross</p> <p>Separately, income / expense for:</p> <ul style="list-style-type: none"> * unit-linked contract liabilities * assets underlying unit-linked contracts 	<p>Premium revenue (direct)</p> <p>Reinsurance premium revenue</p> <p>Reinsurance and other recoveries</p> <p>Net claims incurred showing separately:</p> <ul style="list-style-type: none"> * amount for risks borne in current period * amount for reassessment of risks borne in previous periods <p>Underwriting result</p> <p>Gross claims incurred (undiscounted)</p> <p>Reinsurance and other recoveries (undiscounted)</p> <p>Discount movements for each of gross claims incurred and reinsurance and other recoveries</p> <p>[paragraph 17.1]</p>	<p>Total premiums and claims as well as unbundled amounts</p> <p>Profit related to movement in life insurance liabilities</p> <p>Movement in life insurance liabilities showing:</p> <ul style="list-style-type: none"> * planned margins * difference between actual and assumed experience * effects of changed underlying assumptions * losses on related product groups <p>Disaggregated information by statutory fund and by unit-linked versus non-unit linked, including:</p> <ul style="list-style-type: none"> * premium revenue * investment income * claims * operating expenses * profit or loss * transfer between funds * regulatory solvency position <p>[paragraphs 16.1, 17.1 and 17.2]</p>	<p>The impact of unbundling would mean that many premiums and claims would be recognised directly on the balance sheet, not via the income statement.</p> <p>Under the AASB Standards premiums and claims are shown on the face of the income statement – the emphasis in ED/2010/8 is on the components of profit for the purposes of the income statement.</p>
	[paragraphs 72 to 78]			

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
General disclosure	<p>Qualitative and quantitative information about:</p> <ul style="list-style-type: none"> * amounts arising from insurance contracts * nature and extent of risks arising from insurance contracts <p>Information to help users evaluate the timing, amount and uncertainty of future cash flows from insurance contracts, including:</p> <ul style="list-style-type: none"> * reconciliation from opening to closing contract balances * methods and inputs used for measurement * confidence levels <p>This includes sensitivities to changes of variables and concentrations of risks, and other disclosures similar to those required by IFRS 7</p> <p>Claims development for no longer than 10 years</p> <p>[paragraphs 79 to 97]</p>	<p>Information that identifies and explains amounts arising from insurance contracts, including gross claims, deferred acquisition costs, direct premiums, direct claims expense, acquisition costs expense</p> <p>Information that enables users to evaluate nature and extent of risks arising from insurance contracts, including information about sensitivity to various assumptions, concentrations of risk and claims development (comparing actual with estimated claims)</p> <p>[paragraphs 17.6 to 17.6.6 and 17.7 to 17.7.5]</p>	<p>Information that identifies and explains amounts arising from insurance contracts, including gross claims, deferred acquisition costs, direct premiums, direct claims expense, acquisition costs expense</p> <p>Information that enables users to evaluate nature and extent of risks arising from insurance contracts, including information about sensitivity to various assumptions, concentrations of risk</p> <p>[paragraphs 14.1 to 15.1.3]</p>	<p>Although the wording is different between the AASB Standards and ED/2010/8, they share many of the same disclosure notions</p> <p>It is relevant to note that the IASB developed its ED/2010/8 proposals from the existing IFRS 4 disclosures</p>

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Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Other – related assets	<p>Assets backing unit-linked contracts, for which existing requirements result in an accounting mismatch, recognise and measure at FVTPL</p> <p>This would require consequential amendments to IAS 32, IFRS 9 and IAS 16 (to address own shares held as investments and property occupied by the insurer)</p> <p>[Appendix C]</p>	<p>To the extent feasible under IFRSs, assets backing general insurance liabilities must be recognised and measured at FVTPL</p> <p>[paragraphs 15.1.1 to 15.5.2]</p>	<p>To the extent feasible under IFRSs, assets backing general insurance liabilities must be recognised and measured at FVTPL</p> <p>[paragraphs 10.1.1 to 10.7.2]</p>	<p>If the AASB were to adopt the ED/2010/8 proposals most of the assets currently required to be fair valued would still be required to be fair valued</p> <p>The exceptions are that:</p> <ul style="list-style-type: none"> * some assets that cannot presently be at FVTPL would be at FVTPL, such as owner-occupied property held as an investment backing unit-linked contracts * some assets that must presently be at FVTPL would not necessarily be at FVTPL, such as investment property backing insurance contracts other than unit-linked contracts (unless the AASB were prepared to continue to mandate the choice of the FVTPL option)

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Project Summary

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Transition	<p>Adjust as at beginning of earliest period presented against retained earnings</p> <p>No residual margin on existing business</p> <p>Any deferred acquisition costs are immediately derecognised</p> <p>Permitted to redesignate financial assets as measured at FVTPL if this would eliminate mismatch or reduce inconsistency in measurement or recognition</p> <p>[paragraphs 98 to 102]</p>	Not relevant	Not relevant	<p>Is effectively a mixture of retrospective and prospective transitional adjustments.</p> <p>Some life insurers will have business carried forward that incorporates profits that would have been recognised over the remaining lives of the contracts but that, on transition, would need to be taken direct to retained earnings</p> <p>IASB has discussed that periods beginning on or after 1 January 2013 would be the earliest that a new Standard would apply, and it could be later, particularly if the IASB timeline of issuing a Standard by mid-2011 is not met.</p> <p>Assuming a 1 January 2013 start date, insurers would need to apply the new Standard from 1 January 2012 if they present one year of comparative information.</p>

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Summary of the AASB Roundtable Discussion on the Proposals in the IASB's Exposure Draft ED/2010/8 *Insurance Contracts*

Topic 1 – Proposed Comprehensive Measurement Model

Question 1.1

Do you agree with the proposed 'building blocks' approach? Why or why not?

Melbourne and Auckland participants

Participants expressed general support for the proposed comprehensive measurement model and strong support for using fulfilment cash flows.

Sydney participants

Participants expressed general support for the proposed comprehensive measurement model, but expressed disagreement with the proposal not to remeasure residual margins.

Question 1.2

Do you agree that the risk adjustment should, if applicable, reflect the effects of diversification that arise within a portfolio of insurance contracts, but not the effects of diversification between that portfolio and other portfolios of insurance contracts held by an insurer? Why or why not?

Melbourne and Auckland participants

Participants noted that diversification is central to an insurance business and suggested the accounting standard for insurance contracts should reflect this. Participants also noted that:

- capital adequacy is determined on entity-wide basis, although this is presently a legal entity basis and that APRA may move to a group basis (at least for life insurance); and
- insurers offer a menu of products, each with potentially different capital/risk requirements, so there is cross-subsidisation that could only be reflected by entity-wide diversification.

Accordingly, participants agreed with the proposals in paragraph 35 of the ED but disagreed with the proposals in paragraph 36, which would prohibit an entity from including diversification benefits arising across portfolios in the risk adjustment. Participants also expressed concerns about portfolios being defined in terms of when policies incept because this has the potential to give rise to a large number of portfolios, which would mean that diversification is only narrowly focused (if not eliminated) under the proposals.

Sydney participants

Participants expressed general support for risk adjustments being calculated at the entity level and noted that:

- the proposed definition of risk adjustment arguably reflects elements of fair value measurement, particularly the expectation that an insurer might rationally pay a third party to assume its insurance liabilities. Participants also noted that the definition presupposes that cash flows will be greater than assumed, rather than less. Accordingly, it is unclear how an insurer would determine a risk adjustment for a portfolio of insurance contracts that are an asset;
- diversification is the basis of most insurance businesses and if the accounting requirements for insurance contracts fail to reflect this they will not assist preparers or users;
- the European Union's Solvency II proposals appear to be moving towards an entity level approach, although they may not go as far as prescribing a group-level approach;

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- acquirers take into account the diversification benefits they will yield across their portfolios when acquiring portfolios. The acquisition price will also often reflect other factors not related to the acquired portfolio, including market perceptions about the entity from which the portfolio is being acquired;
- under the proposals, portfolios would potentially differ across entities. Accordingly, portfolio-level information may not be comparable across insurers, and this is particularly a concern in relation to long-tail insurance obligations;
- the cost of capital technique is arguably not consistent with the proposal that the risk adjustment reflect the effects of diversification within a portfolio of contracts but not between portfolios. Under a cost of capital technique, an insurer with diversified activities might use the group's rate of return to estimate its risk adjustment, thereby incorporating diversification benefits in the risk adjustment; and
- regulatory capital rules and reinsurance arrangements tend to equalise the risks/cost of capital across small and large insurers.

Participants also expressed disagreement with the FASB's composite margin proposals, noting that:

- the Global Financial Crisis highlighted that the market reprices risk when new information becomes available and when the underlying conditions change;
- insurers are in the business of accepting risk so it is incongruous to propose that they don't explicitly measure or remeasure risk adjustments; and
- to avoid any potential misunderstanding, responses to the IASB that support an explicit risk adjustment that is subject to remeasurement should also clarify that they do not support the FASB's composite margin proposals.

Question 1.3

Do you agree that an insurer should recognise residual margins determined at initial recognition as income in profit or loss over the coverage period of the underlying insurance contracts in the proposed manner? Why or why not?

Melbourne and Auckland participants

Participants noted that it is necessary to remember the residual margin is a 'plug'. Nevertheless, it could be a significant amount for life insurers, and depending on the amortisation approach (profit carrier), the profit could be 'back-ended'.

Most participants expressed a preference for the residual margin to be remeasured for the impacts of changes in assumptions, based on up-to-date information (consistent with the margin on services approach under AASB 1038 *Life Insurance Contracts*). Participants also noted that:

- the assumptions can be 'trued-up' over time because the insurer would normally continue to receive new information on the risks associated with the same or similar products, particularly if it keeps selling them; and
- insurers are generally active in re-pricing to meet the market.

Sydney participants

Participants expressed disagreement with the proposal to 'lock in' the residual margin and have it run off over the coverage period. Participants suggested that requiring the residual margin to be remeasured (similar to the approach under AASB 1038 for margin on services) would allow insurers less scope to manipulate profits as current profits would not be subject to changes in assumptions regarding future conditions. Participants also noted that assumption changes normally have a

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relatively greater impact on insurer's profits than other changes in components of insurance liabilities, including losses at inception and experience adjustments.

Participants also noted that:

- for life insurance contracts, claims can provide a reasonable profit driver for recognising margins on services; and
- for investment products, assets under management can provide a reasonable profit driver for releasing margins.

Topic 2 – Short-duration Insurance Contracts

Question 2.1

Do you agree that an insurer should be required (rather than permitted) to apply a premium allocation model for measuring pre-claims liabilities of short-duration insurance contracts? Why or why not?

Melbourne and Auckland participants

Participants expressed support for a 'short versus long' approach rather than a 'general versus life' approach. However, some participants expressed concerns about the treatment of contracts with coverage periods between one and two years under the IASB's proposals. Some participants also expressed concerns that some reinsurance contracts for short-duration direct contracts would be treated as long-duration contracts, so there would be a mismatch between the measurement model used for direct insurance and reinsurance contracts.

Some participants were opposed to requiring (rather than permitting) the unearned premium approach being applied to short-duration insurance contracts because it would force some insurers that have both short-duration and long-duration contracts to run two measurement models for pre-claims liabilities, thereby diminishing the comparability of their financial results. They also expressed concerns that highly similar contracts with coverage periods that are slightly shorter or longer than 12 months would need to be treated differently under the proposals. Other participants, however, noted that they considered relevance to be a more significant criterion for determining which measurement approach should apply to insurance contracts. Most of the participants expressed support for an approach that required insurers to apply the comprehensive measurement model, but permit them to apply the unearned premium approach where it would give the same or similar reporting outcomes as the comprehensive model for pre-claims liabilities.

Sydney participants

Participants generally agreed that:

- using contract duration as a basis for determining the measurement approach for pre-claims liabilities would cause some contracts (such construction and building warranty contracts) to be treated differently from other similar types of insurance contracts. In turn, this would prevent some general insurers reporting on similar types of insurance contracts on a consistent basis; and
- insurers should be permitted rather than required to use an unearned premium approach for short-duration insurance contracts and other contracts that are similar in nature.

Accordingly, participants generally agreed that the IASB should revisit the proposals with the view to identifying criteria that are not time-based and would facilitate pre-claims liabilities for similar insurance contracts being treated in a similar manner.

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Question 2.2

Do you agree that an insurer should remeasure a portfolio of short-duration insurance contracts that are, collectively, onerous to the present value of the fulfilment cash flows? Why or why not?

Melbourne and Auckland participants

Participants expressed strong support for the 'onerous short-duration contract' proposals, although some expressed concerns about the unit of account in terms of products knowingly priced as loss leaders. On this basis, some participants suggested that the onerous contract test should be applied at the portfolio level rather than at the individual contract level.

The question of whether the onerous contract test should be determined net or gross of reinsurance was also raised by some participants as an issue that the IASB should clarify. Australian and New Zealand Accounting Standards and the Australian prudential requirements allow insurers to assume that direct policies are covered for reinsurance, even if the reinsurance policies in force do not cover the whole of the direct insurance period.

Sydney participants

Participants agreed that:

- the proposals are similar in principle to the liability adequacy test (LAT) requirements under Australian Accounting Standards; and
- it is appropriate that pre-claims liabilities that are measured using an unearned premium approach be remeasured on a portfolio basis when the underlying contracts are onerous.

Participants also noted the following issues in relation to applying a LAT under Australian Accounting Standards that might be relevant to understanding how the proposals might be interpreted and applied in other jurisdictions.

- Some insurers adopt a relatively narrow definition of a portfolio, which increases the likelihood that they will recognise losses in respect of a relatively small number of contracts/portfolios, even when the insurer is profitable overall. In particular, requiring onerous short-duration contracts to be remeasured on a sub-portfolio basis (contracts with similar dates of inception) is likely to increase the probability that insurers will be required to remeasure contracts and recognise losses.
- Insurers that offer discounts to policyholders in respect of their second and third policies are more likely to be required to apply a LAT.
- Confidence levels applied to pre-claims liabilities subject to a LAT tend to be smaller (and in some cases significantly smaller) than the confidence levels applied to claims liabilities for the same types of insurance contracts. Participants noted that such an approach is permitted under Australian Accounting Standards, and may be consistent with the prevailing facts and circumstances. However, other participants suggested that such an approach is contrary to the spirit of the current reporting requirements.

Topic 3 – Contract boundary principle

Question 3.1

Do you agree with the proposed boundary principle and do you agree insurers would be able to apply it consistently in practice? Why or why not? If not, what approach would you recommend?

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Melbourne and Auckland participants

Participants expressed concerns about the implications of the contract boundary proposals for health insurers. Health insurers in Australia and New Zealand currently account for their health insurance contracts as short-duration insurance contracts. This is because most health insurers settle almost all of their outstanding claims within three months of notification. However, under the contract boundary proposals they would potentially be required to:

- treat the boundary of the contract as the date on which the policyholder is expected to lapse or become deceased; and
- measure health insurance contracts using the comprehensive measurement model.

The regulation of health insurance in Australia prevents adjusting for individual risks, but adjustments are made at the portfolio level. The Australian health insurance environment is designed to ensure insurance is managed at the portfolio level because it includes portability without underwriting. At the portfolio level, health insurers can adjust premiums (with government 'approval') and a whole benefit table can be adjusted, for example, by removing or adding excesses or claim limits on ancillary items, or withdrawing or adding features from a particular table.

Similar factors are at work in those Australian states where compulsory third party motor insurance (CTP) is provided by private sector insurers but still closely regulated by government, with the aim of providing all drivers with access to affordable CTP while allowing insurers to make a reasonable return on the business as a whole. Adjustments are made to premiums to reflect the overall risk experience with CTP, but an insurer cannot fully price risk for individual policyholders.

In New Zealand, there are some parallels with the Australian situation in practice, notwithstanding that New Zealand health insurers are not subject to the same level of government oversight.

Some participants indicated that they prefer a differential measurement approach based on the 'life versus non-life' distinction over the proposed 'short versus long-duration' approach. In addition, most participants agreed that, in the context of the proposed contract boundary principle, the key criterion for determining contract boundaries should be the ability to re-price risk at a portfolio level.

Some participants also raised concerns regarding whether the modified approach could be applied to reinsurance contracts in all circumstances when the underlying direct insurance contracts were measured on such a basis. This issue was discussed in more detail later in the roundtable in the context of other issues.

Sydney participants

Most participants agreed that the contract boundary proposals would have implications for health insurers as well as insurers that provide CTP, lender mortgage insurance (LMI) and builders' warranty insurance. Participants noted that:

- apart from the fact that health insurers re-underwrite contracts on a portfolio (rather than an individual contract) basis, health insurance contracts would otherwise be generally considered short-duration in nature;
- the proposals, if adopted, may lead some insurers to change the terms and conditions of their LMI and builders' warranty insurance contracts;
- trustees of superannuation plans often acquire group life policies for members of their superannuation plans, and these contracts are usually re-rated annually on a portfolio basis; and
- while most insurers that offer health and CTP insurance contracts are restricted in their capacity to re-price these types of contracts on an individual (and sometimes portfolio) basis, they sometimes can alter the terms under the policies, which would have the same economic effect

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as re-pricing. Accordingly, these insurers might be considered to be able to 'effectively' re-price their health and CTP insurance contracts, notwithstanding that they might not be able to actually or fully change the premiums charged on individual contracts.

Accordingly, participants suggested that the IASB should consider either amending the proposed criteria in paragraph 27 of the ED or introduce a third 'test' that would permit an insurer that could reprice on a portfolio basis to measure the contracts using an unearned premium approach.

Topic 4 – Acquisition Costs

Question 4.1

Do you agree that incremental acquisition costs should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not?

Melbourne and Auckland participants

Most participants agreed that the proposals regarding acquisition costs are too dependent on the sales/distribution model used by the insurer (agents versus in-house). Accordingly, if adopted, the proposals would be subject to 'gaming', whereby two insurers might agree to market each others' products to convert in-house costs to incremental acquisition costs at the contract level. Accordingly, some participants favoured focusing on acquisition costs at the portfolio level, either incremental or 'direct' acquisition costs, rather than individual contract level. Other participants favoured immediately expensing all acquisition costs.

Sydney participants

Participants noted that:

- acquisition costs are generally incurred prior to the inception of an insurance contract. However, at this point in time it is difficult to identify which contracts will be implemented and, therefore, which costs should be carried forward;
- the proposals favour insurers that sell their contracts through external agents over those that have in-house sales arrangements. Consequently, if adopted, the proposals would diminish the comparability of the financial statements across insurers as they would make those that use external agents look more profitable (at least initially) compared to those that have internal sales arrangements. In addition, the proposals would potentially undermine the comparability of the reported results of an insurer that sells different types of contracts that are similar in all respects except that they are distributed through different channels;
- a significant portion of the residual margin of most general insurance contracts is acquisition costs;
- notwithstanding that there is some scope for insurers to determine the boundaries of their portfolios under the proposals in the ED, there are some acquisition costs that are arguably incremental at the portfolio level. In addition, requiring acquisition costs that are incremental at the portfolio level would be consistent with the proposed level of aggregation required for cash flows and risk adjustments; and
- the proposals are inconsistent with the IASB's proposals in ED/2010/6 *Revenue from Contracts with Customers* and the treatment of acquisition costs under IAS 39 *Financial Instruments: Recognition and Measurement*.

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Topic 5 – Presentation and Disclosure**Question 5.1**

Do you agree that the proposed 'summarised margin' presentation approach will provide relevant information for users of the financial statements of insurers? Why or why not? If not, what alternative would you recommend and why?

Question 5.2

Are there any disclosures that have not been proposed that you consider would provide relevant information for users of the financial statements of insurers? If so, what are these disclosures?

Question 5.3

Do you consider any of the proposed disclosures not to be cost-beneficial? If so, why?

Melbourne and Auckland participants

Most participants indicated that the proposed disclosures would facilitate the provision of useful information to the users of the financial statements of insurers and would not be unduly onerous for insurers to apply. However, participants also agreed that it should be at the insurer's discretion as to how the disclosures are presented.

Participants expressed disagreement with the proposed summarised margin presentation approach on the face of the statement of comprehensive income. Most participants consider the proposed approach would be particularly problematic for an entity that has insurance and non-insurance businesses. Participants also noted that:

- many of the ratios that analysts commonly use require 'gross' information (premiums and claims) but this information may be lost under the presentation proposals, which seem to assume that net information is more useful; and
- in some circumstances, small changes in gross items could have significant impacts on the net amounts, notwithstanding that the long-term trends remain relatively constant. Consequently, users might be misled by insurers putting too much emphasis on net rather than gross information.

Participants expressed little support for disclosing reconciliations on a portfolio-by-portfolio basis, unless portfolios were to be determined at a higher level than proposed (date of inception) or permitted to be aggregated. This is because most participants consider that the proposals may cause some insurers to recognise a large number (possibly hundreds) of portfolios. It was noted that the proposals for reconciliations (a recurring theme in recent IASB EDs) has come from users' views identified by the IASB in the context of its Financial Statement Presentation project.

There was a general view that the disclosure proposals, particularly the reconciliation proposals, should be field tested. Most participants expressed general ambivalence about disclosing confidence levels, although one participant suggested that it would be misleading to disclose the equivalent confidence level if a conditional tail expectation or cost of capital technique is used.

One participant suggested that:

- deferred acquisition costs should be reconciled because they are a major profit driver (although maybe less so in future);
- the impact of assumption changes should be quantified, where feasible, for life insurance contracts;

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- the termination rate versus the incident rate for life insurance contracts should be disclosed; and
- there should be disclosure of, for example, the five key five assumptions that have the most significant impact on an insurer's reported results, and it should be highlighted when there is a change in the composition of those five key assumptions to help users discern trends.

Sydney participants

Most participants agreed that it is difficult to discern what impact the presentation and disclosure proposals might have on the information provided by insurers, particularly if the IASB decides to amend the recognition and measurement proposals. Nevertheless, participants expressed some concerns regarding aspects of the proposals, including:

- paragraph 72(d) proposes that experience adjustments and changes in estimates could be presented as a single line item in the statement of comprehensive income. A participant recommended that experience adjustments and changes in estimates should always be presented separately, otherwise insurers would be inappropriately adding historical and current measures together;
- applying the proposed summarised margin approach would pose some challenges to entities with both insurance and non-insurance businesses;
- the proposals would potentially require insurers to provide more detail in their disclosures. While users may not benefit significantly from being provided with more granular disclosures, insurers might as it would potentially give them some useful information about their competitors; and
- the disclosure proposals applicable to short-duration insurance contracts need to be worded more clearly.

Participants agreed that the IASB should review the presentation and disclosure proposals once it has finalised its thinking on the recognition and measurement proposals, particularly the treatment of residual margins. Participants also agreed that the presentation and disclosure proposals would benefit from field tests involving users. However, participants also agreed that the IASB should adhere to its current timetable, which anticipates a new IFRS on insurance contracts by June 2011. Accordingly, if it were likely that any reviews and/or field tests would cause the IASB to miss this deadline, they should be incorporated into the IASB's post-implementation review of the new standard.

Participants discussed some aspects of the information currently disclosed by insurers under Australian Accounting Standards. While participants agreed that the disclosures provided by local insurers are arguably better than those provided by many insurers in other jurisdictions, they also agreed that some of the information currently disclosed by insurers under Australian Accounting Standards is possibly not as transparent as it could be. In particular, participants noted that:

- insurers generally provide relatively little information around:
 - residual margins;
 - best estimate cash flows;
 - reserve releases;
 - the relationships between probability of adequacies, central estimates and risk margins; and
 - the relative contributions that new and past business make to profit; and
- the information currently provided in claims development tables:
 - is often not comparable across insurers;

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- does not provide a break-down of claims by contract type;
- does not provide information regarding profit development; and
- can be distorted by foreign currency changes when the insurer issues insurance contracts in other jurisdictions.

Topic 6 – Transition

Question 6.1

Do you agree that, at the beginning of the earliest period in which the proposals in the ED are applied, an insurer should (with a corresponding adjustment to retained earnings):

- (a) measure each portfolio of insurance contracts at the present value of the fulfilment cash flows. Accordingly, for insurance contracts to which the proposed transitional provisions would apply, the measurement, both at transition and subsequently, would not include a residual margin;
- (b) derecognise any existing balances of deferred acquisition costs; and
- (c) derecognise any intangible assets arising from insurance contracts assumed in previously recognised business combinations. (That adjustment, however, would not affect intangible assets, such as customer relationships and customer lists, which relate to possible future contracts.)

Melbourne and Auckland participants

Participants expressed strong support for at least permitting retrospective application. Some participants were of the view that the cost of implementing the proposals will be significant (particularly in jurisdictions other than Australia and New Zealand), but the cost of applying the proposals retrospectively is unlikely to be significant relative to the total cost of adopting the proposals.

Participants acknowledged that grandfathering the accounting for residual margins under IFRS 4 *Insurance Contracts* would not achieve consistency because IFRS 4 permits different practices, depending on national GAAPs.

Some participants suggested that an opening fair value approach could be adopted, which is the approach usually adopted for first-time adopters under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. It was emphasised by some participants that the IASB should be consistent on this matter between transitioners and first-time adopters.

Some participants noted that requiring prospective treatment is probably consistent with the proposal for 'locked-in' residual margins. However, if the IASB decides to amend its proposals in relation to residual margins to require remeasurement, retrospective application of the model would be more feasible.

Sydney participants

Participants discussed the feasibility of retrospectively applying the IASB's proposed model and noted that:

- it was probably feasible for Australian and New Zealand insurers to apply the proposed model going back 5 years, but this would probably require them making a high level adjustment for acquisition costs and making some modifications to experience adjustments going forward;
- comparability across jurisdictions is arguably ambitious in the context of insurance contracts and in some respects not justified, particularly as the results from in-force and new business are generally not comparable. Instead, the IASB should be concerned about whether insurers can apply the proposed model in a way that facilitates the provision of reliable information;

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- if the residual margin proposals were adopted and retrospective application were permitted, insurers would need to agree to a basis for running off residual margins with their auditors;
- the IASB's proposals are arguably not consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which permits retrospective application provided that application of the new accounting policy is not impracticable; and
- while a business combination approach would not provide a residual margin consistent with the IASB's proposals, it may be feasible for some insurers to apply the proposed model to in-force business on the date of transition. Past examples of 'lapse and re-entry' arrangements and demutualisations, which have involved liabilities being remeasured at a point in time, provide some support for the view that retrospective application is feasible and could be done reliably. However, participants also agreed that it would be inappropriate for an insurer to be permitted to use hindsight to determine prior period assumptions to measure current insurance liabilities.

Question 6.2

Do you agree that:

- (a) an insurer should be permitted to early adopt the IFRS on insurance contracts; and
- (b) the IASB should delay the effective date of IFRS 9 *Financial Instruments* for insurers if the IFRS on insurance contracts has a mandatory effective date later than 1 January 2013.

Melbourne and Auckland participants

Most participants agreed that adoption of IFRS 9 is unlikely to be an issue for insurers in Australia and New Zealand, but if it is an issue for some then they would not object to the effective dates of the revised IFRS 4 and IFRS 9 being aligned. However, some participants expressed disagreement with the prospect of the effective date for IFRS 9 being linked to insurance activities because this would mean that an entity with insurance and non-insurance activities could have two IFRS 9 adoption dates.

Sydney participants

Participants were generally supportive of:

- insurers being permitted to early adopt the new IFRS for insurance contracts; and
- the adoption date for IFRS 9 being aligned with the adoption date for the new IFRS for insurance contracts, particularly if it made it easier for insurers to transition to the new reporting arrangements.

Other issues

Melbourne and Auckland participants

Participants identified a number of other issues for discussion, including:

- *point estimates versus stochastic modelling* – most participants consider the choice between the two approaches is a case of 'horses for courses'. Point estimates are generally acceptable when there is relatively little variability in expected outcomes, but modelling would be necessary otherwise. Some participants also noted that they consider the guidance in the ED is designed to dissuade entities from using point estimates;
- *financial guarantees* – one participant suggested that many financial guarantee contracts are different from insurance contracts because the policyholder does not have to demonstrate a loss. For these types of financial guarantee contracts, the policyholder can exercise a

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guarantee and then it's up to the guarantor to collect the debt, and any problems with collectability reside with the guarantor. That is, the role of many financial guarantee arrangements is to facilitate a loan. Accordingly, the participant supports an IAS 39 (IFRS 9) approach for all financial guarantees because they predominantly expose entities to general lending risks rather than insurance risks;

- *discount rates* – participants generally agreed with the proposal for an insurer to use risk-free discount rates adjusted for illiquidity for non-participating insurance contracts. One participant noted that many life insurance portfolios give rise to assets (because of deferred acquisition costs) rather than liabilities, so higher or lower discount rates may have the opposite impact to that which is expected. There was also general agreement among participants with the proposal that credit risk be excluded from the measurement of insurance liabilities in view of the model being based on fulfilment cash flows (as opposed to an exit value notion as proposed in the IASB's Discussion Paper *Preliminary Views on Insurance Contracts*);
- *reinsurance contracts* – participants noted that some insurers have 'umbrella' reinsurance arrangements that run for more than one year. Consequently, under the IASB's proposals the direct insurance which is a short-duration contract would be measured using an unearned premium approach whereas the related reinsurance contract would be measured using the comprehensive measurement model. Some participants suggested that this type of mismatch might encourage financial engineering, especially since diversification at the direct policy stage is at the portfolio level (while reinsurance diversification would be wider). In addition, some participants expressed support for insurers recognising gains on reinsurance contracts, but only when there is a direct correlation with a direct portfolio that is showing a loss; and
- *taxes* – some participants expressed concerns as to whether the proposals permit an insurer to include value-added taxes and goods and services tax in the estimates of cash flows for insurance contracts.

Sydney participants

Participants identified a number of other issues for discussion, including:

- *taxes on life products* – participants noted that the current prohibition against discounting tax liabilities under IAS 12 *Income Taxes* would have implications for the size of residual margins recognised under the proposed model. Participants also noted that taxes paid on members' policies are currently being treated by insurers as an expense ('above the line'), even when insurers are acting as agents for members with respect to these taxes. As these taxes are a cash flow under the contract, participants suggested they should be included in the measurement of insurance liabilities;
- *reinsurance contracts* – some participants expressed agreement with the proposals for an insurer to recognise a gain on reinsurance when the gain mirrors a loss in the underlying direct insurance contract. However, other participants expressed concerns with the proposals, primarily because gains could arise as a consequence of diversification benefits to the reinsurer. Participants also expressed concerns with:
 - the applicability of the wording in the ED in relation to direct insurance contracts to reinsurance contracts; and
 - accounting for reinsurance contracts that are partially-performance based under the proposals in the ED;
- *discretionary participation features* – participants noted that the ED distinguishes between participating contracts with cash flows that are affected by insurance risk and those that are not, and that the former would be accounted for under the IFRS for insurance contracts and the latter would be accounted for under IAS 39. Participants suggested that the proposals in the ED are sufficiently different from the requirements under IAS 39 to warrant all participating

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insurance contracts being accounted for under the one Standard and therefore recommended all participating contracts be within the scope of the replacement Standard for IFRS 4;

- *discount rate for participating contracts* – some participants suggested the wording in paragraph 32 does not provide sufficient guidance in relation to how a discount rate for contracts that depend wholly or partly on the performance of specific assets should be determined. Participants noted that participating contracts may not be backed by particular assets;
- *unit-linked contracts* – participants noted the ED proposes that insurers recognise investments in ‘treasury shares’ held for the purpose of unit-linked contracts, and that this is not consistent with the treatment of such investments under IAS 32 *Financial Instruments: Presentation*. Participants generally agreed that the proposals did not pose any significant concerns; and
- *unbundled insurance contracts* – participants expressed concerns with a number of aspects of the unbundling proposals, including whether the:
 - unbundled cash flows in relation to investment returns should be net of tax;
 - components of an insurance contract should be unbundled when one (or more) of the components is loss-making; and
 - cash flows attributable to bundled components need to be ‘closely related’ or ‘interrelated’.

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Appendix A – List of Roundtable Participants

Sydney – PricewaterhouseCoopers, Darling Park Tower 2, 201 Sussex Street, Sydney

Name	Organisation
Tony Coleman	Lonergan Edwards and Associates
Chris Lewis	APRA
Greg Martin	KPMG Actuaries
Kim Smith	PricewaterhouseCoopers
Ian Moyser	KPMG
Grant Robinson	AMP
Andrew Kitchen	Insurance Australia Group Limited
Matthew Dunger	Macquarie Securities Group
Colleen Chapman	Allianz Australia Insurance Ltd
Greg Johnstone	Zurich Financial Services Australia
Paul Harris	Ernst & Young
Victor Clarke	AASB
Dean Ardern	AASB

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Name	Organisation
Christina Habal	ANZ
Jeroen van Koert	AXA Australia
Jon Marcard Michael Sammells	Medibank
Roger Miles	Medical Indemnity Protection Society Ltd
John de Zwart	Tower Insurance
Scott Hadfield	PricewaterhouseCoopers
Glen Kong	Worksafe Victoria
Warren McGregor	IASB
Kevin Stevenson	AASB
John O'Grady	AASB
Glenn Appleyard	AASB
Angus Thomson	AASB

Observers: Marissa Royer – AXA Australia; Anna Adamidis – ICAA; Anthony Braden – Chartis.

Auckland – NZICA Offices, Carlaw Park, 12-16 Nicholls Lane, Parnell

Name	Organisation
Bill Wilkinson	KPMG
Karl Deutsche	PricewaterhouseCoopers
Mark Hucklesby	Grant Thornton New Zealand
Martin Stott	IAG New Zealand Limited
John Feyter	Southern Cross Healthcare
John Smeed	Finity Consulting
Patricia McBride	New Zealand Institute of Chartered Accountants
Clive Brodie	New Zealand Institute of Chartered Accountants

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