



Insurance Contracts

Project summary

This is largely an IASB project –see: <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Pages/Insurance-Contracts.aspx>

The AASB is contributing to the IASB project in its capacity as:

- a jurisdiction with existing robust accounting standards applying to insurance contracts;
- a member of the AOSSG’s Insurance Working Group; and
- a member (with New Zealand) of the IASB’s Accounting Standards Advisory Forum. [the insurance standard in Australia and New Zealand are currently aligned.]

In relation to the AASB standard that will incorporate a forthcoming IFRS on insurance contracts, the AASB is undertaking domestic work to consider whether:

- modifications might need to be made to cater for public sector insurers;
- the Australian insurance standard should continue to require insurers to measure assets at fair value through profit or loss (when feasible under IFRS);
- there is any need for Tier 2 disclosure requirements to be identified; and
- AASB Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* should be retained.

The overall objective of the project is to develop a standard to replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, and AASB 1038 *Life Insurance Contracts*.

IFRS 4 *Insurance Contracts*, first issued in 2004, introduced some broad requirements, but largely grandfathered the various national GAAPs that are still applied in jurisdictions that have adopted IFRS. The forthcoming IFRS is intended to be comprehensive and displace this national GAAP.

Project contact

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Project priority: High

Issued documents

- [ED 201 Insurance Contracts](#)
- [Tier 2 Supplement to ED 201 Insurance Contracts](#)
- [ED 244 Insurance Contracts](#)

Project status

- IASB is field testing a draft new IFRS
- AASB is considering whether public sector and Tier 2 modifications might be needed
- IASB expects to issue a new IFRS beyond the next 6 months

AASB outreach

- [Comment letters received on ED 201](#)
- [Comment letters received on Tier 2 Supplement to ED 201](#)
- [Comment letters received on ED 244](#)
- [Webinar conducted on 22 August 2016](#)

Project news

Date	News
23 June 2016	June 2016 Action Alert
1 September 2016	August 2016 Action Alert

Project Background

The main domestic issues being addressed by the AASB are noted below, together with Board decisions to date.

Overall view on the forthcoming IFRS

At its June 2016 meeting, the Board noted that the IASB has completed its substantive decision making on a forthcoming IFRS on insurance contracts that, if adopted, would supersede the existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

The Board:

- (a) received an education session on the IASB's decisions and plans to finalise a revised IFRS on insurance contracts, including issues that might be resolved as part of the drafting process;
- (b) noted key issues from ED/2013/7 *Insurance Contracts* on which the AASB had commented and more recently advocated and the IASB's subsequent decisions;
- (c) noted issues of potential significance to the public sector; and
- (d) noted the next steps involved in completing a revised AASB on insurance contracts, including the independent review process that would need to be performed to meet best practice regulation requirements.

The Board noted that the likely requirements in the forthcoming IFRS will significantly improve current accounting by international insurers, and that the proposals are likely to mean less change for Australian entities than their international counterparts. Based on the information available at this stage, the Board members indicated that, while some aspects of the forthcoming IFRS might be backward steps for Australian financial reporting, it may also result in some improvements, and there are expected to be benefits for Australia from applying a comprehensive IFRS for insurance contract accounting. Accordingly, none of the Board members present indicated that they plan to dissent from making a revised AASB standard on insurance contracts using the forthcoming IFRS.

The time of completion of the forthcoming IFRS remains uncertain, but is expected to be in the first half of 2017 and Board members will have further opportunities to consider the forthcoming IFRS.

Project Background

- Domestic issues** At its June 2016 meeting the Board asked staff to:
- (a) prepare a more detailed paper for presentation at the next Board meeting on whether any differences from the likely requirements of the forthcoming IFRS might be justified for public sector insurers, following more stakeholder engagement with that sector; and
 - (b) prepare a paper for presentation at the next Board meeting on how the Board might approach the issue of asset measurement in a revised AASB standard on insurance contracts, in view of the existing Australian requirements to account for assets backing insurance liabilities at fair value through profit or loss.

- June 2016 Board papers** The relevant June 2016 Board papers are:
- (a) Cover memorandum dated 6 June 2016 – [10.1](#)
 - (b) Education session slides – [10.2](#)
 - (c) Staff paper on IASB ED/2013/7, AASB comments, and IASB’s subsequent decisions – [10.3](#)
 - (d) Staff paper on implications for the public sector – [10.4](#)
 - (e) Staff paper on steps to complete a revised insurance standard – [10.5](#)

Asset measurement At its August 2016 meeting the Board, in order to allow insurers flexibility to choose asset measurements that remove potential accounting mismatches with insurance liability measurement, agreed not to retain the existing asset measurement requirements (in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*) requiring assets to be measured at fair value whenever permitted by other standards.

Public sector issues At its August 2016 meeting, the Board decided that it will clarify the scope of the forthcoming new AASB insurance standard for public sector entities, to ensure similar activities are treated similarly. The Board asked staff to:

- (a) conduct more thorough outreach through HoTARAC members and with the affected entities directly; and
- (b) prepare a possible exposure draft that would make proposals about the types of arrangements to be accounted for using insurance standards, which would be intended to take effect under the forthcoming AASB standard.

The Board noted there may be a need to address the interaction of the likely contract boundary and onerous contract requirements. If the impact of the forthcoming new AASB insurance standard would be to require public sector insurers to account for some sub-groups of annual contracts as if they were long-term (possibly perpetual) contracts using the ‘general model’ for liability measurement, there should be a public sector-specific paragraph to avoid this consequence. The Board asked staff to draft a relevant paragraph in case it is needed.

The Board also noted that similar issues around the interaction of the likely contract boundary and onerous contract requirements may arise for health insurers because of the Australian regulatory regime of ‘community rating’.

Project Background

Medical Defence Organisations At its August 2016 meeting, the Board decided AASB Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* should be superseded (along with AASB 4 *Insurance Contracts*, AASB 1023 and AASB 1038) by the forthcoming new AASB insurance standard. Until that new standard is applied, AASB Interpretation 1047 remains applicable.

Tier 2 At its August 2016 meeting, the Board decided:

- (a) there may be insurers (such as captive insurers) that do not have public accountability and are not reporting entities, and their reporting obligations should be addressed in the context of the Australian Financial Reporting Framework project, particularly the research topic 'Information on entities within a group'; and
- (b) staff should analyse the characteristics of insurers that would help identify those which are not reporting entities.

August 2016 Board papers The relevant August 2016 Board papers are:

- (a) Cover memorandum dated 16 August 2016 – [4.1](#)
- (b) Staff paper on measurement of assets backing insurance liabilities – [4.2](#)
- (c) Staff paper analysing public sector issues in the context of the AASB's *Process for Modifying IFRS for NPFs* – [4.3](#)
- (d) Staff paper on the future of AASB Interpretation 1047 on medical defence organisations – [4.4](#)
- (e) IASB feedback document in respect of ED/2013/7 – [4.5](#)
- (f) IASB field test questionnaire – [4.6](#)
- (g) Staff paper on insurers and the Tier 2 disclosure regime – [4.7](#).