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

The subject headings are based on the headings in ED/2010/8.

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	Contracts that transfer significant insurance risk Financial instruments containing a discretionary participation feature [paragraph 1] Among other things, fixed fee service contracts that have the primary purpose of providing services are excluded [paragraph 4]	Contracts that transfer significant general insurance risk [AASB 4 Appendix A Defined terms]	Insurance contracts and financial instruments with a discretionary participation feature regulated under the *Life Insurance Act 1995* and similar contracts issued by entities operating outside Australia Life investment contracts, which means a contract regulated under the *Life Insurance Act 1995* but which does not meet the definition of a life insurance contract in this Standard, and similar contracts issued by entities operating outside Australia [Paragraphs 2.1, 2.1.1 and section 20 of AASB 1038, and AASB 4 Appendix A Defined terms]	The scopes are similar, except that: * 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 *Life Insurance Act 1995* 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 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

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

Subject	***ED/2010/8***	***AASB 1023***	***AASB 1038***	***Comment***
Initial contract measurement	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 [paragraph 17]	Pre-claims liability – 'unearned premium' is deferred on the balance sheet – also see subject heading ***Pre-claims liability for short-duration contracts*** Claims liability is PV of expected cash inflows and outflows to fulfil contract, adjusted for inherent uncertainty in central estimate [paragraphs 5.1 and 7.1]	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 [paragraph 8.1]	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 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) The AASB 1023 premium deferral approach to pre-claims liabilities is highly similar to the ED/2010/8 approach to short-duration contracts

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

Subject	***ED/2010/8***	***AASB 1023***	***AASB 1038***	***Comment***
Contract boundary	The point at which the insurer is either; * no longer required to provide coverage; or * has the right or practical ability to reassess risks and pricing [paragraphs 26 to 29]	Not explicitly dealt with, although there is acknowledgment that most direct insurance contracts are annual [paragraphs 4.3 and 4.3.4] Inwards reinsurance business is accounted for over the indemnity period [paragraph 4.3]	Future cash flow estimates take into account expected renewal premiums/lapse rates [paragraphs 8.1]	AGAAP for (non-health) general insurance and life insurance is consistent with the ED/2010/8 proposals Australian health insurers may pose issues because most of their premiums are renewable each month and they are legally bound to: * 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 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

Subject	*ED/2010/8*	*AASB 1023*	*AASB 1038*	*Comment*
Discount rate	Time value consistent with observable current market prices for instruments with similar cash flows and incorporating timing and currency, plus adjustment for liquidity risks 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 [paragraphs 30 to 34]	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 [paragraph 6.1]	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. To the extent benefits are contractually linked to the performance of assets held, discount using rates based on market returns on assets backing liabilities [paragraphs 8.7 and 8.8]	AGAAP is less specific than the ED/2010/8 proposed discount rate requirements, however, the proposals may result in similar outcomes The ‘contractually-linked’ business referred to in AASB 1038 would probably either be: * unbundled from life insurance contracts; or * be life investment contracts; and treated under other IAS 39 and IFRS 9 In practice, Australian actuaries often factor a liquidity adjustment into the risk-free discount rate, particularly for life business
Risk adjustment	Maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate cash flows exceed those expected [paragraph 35 and B67 to B103]	Risk margin required to allow for the inherent uncertainty in the central estimate – often done using a probability of adequacy of 75% or more [paragraphs 5.1 and 9.1.2]	Risk is generally built into the assumptions underlying the cash flow estimates [paragraph 8.1]	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

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

Subject	ED/2010/8	AASB 1023	AASB 1038	Comment
Portfolio transfer	Measure portfolio acquired at higher of: * 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) [paragraph 40]	Measure acquired insurance liabilities and assets at fair value 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 [paragraph 13.3.1]	Measure acquired insurance liabilities and assets at fair value 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 [paragraph 13.1.1]	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
Business combination	Measure portfolio acquired at higher of: * 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) [paragraph 42]	As above	As above	

Subject	*ED/2010/8*	*AASB 1023*	*AASB 1038*	*Comment*
Initial outwards reinsurance contract measurement	PV of fulfilment cash flows, including consideration of non-performance risk If PV less than zero, establish a residual margin If PV greater than zero, recognise a gain, which in some cases will offset an upwards revision to claims liabilities [paragraphs 43 to 45]	Recognise reinsurance premiums as expenses from the attachment date over the period of indemnity, reinsurance recoveries as income Recognise claim recoveries not yet received as an asset discounted on the same basis as for claims liabilities Impair claim recovery assets if there is objective evidence and the impact can be reliably measured [paragraphs 10.1 to 11.1.3]	Recognise reinsurance premiums as expenses, claim recoveries as income and claim recoveries not yet received as an asset [paragraph 6.1]	The gain that might be recognised in some cases under ED/2010/8 seems inconsistent with prohibiting day one gains on direct insurance contracts 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 The IASB's logic is that there cannot be a 'negative residual margin' (on the balance sheet) so a gain should be recognised Reinsurance gains are not explicitly addressed in AASB 1023 or AASB 1038 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

Subject	***ED/2010/8***	***AASB 1023***	***AASB 1038***	***Comment***
Subsequent contract measurement	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 Systematically recognise residual margin over coverage period: * based on passage of time; but * based on expected pattern of claims and benefits if that differs significantly from the passage of time as at the end of each reporting period [paragraph 47, 48, 50 to 53]	Pre-claims liability – also see subject heading ***Initial contract measurement*** 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 [paragraph 5.1]	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 [paragraph 8.1] Planned margins recognised in income as services are rendered based on 'profit carriers', adjusted for subsequent changes to assumptions [paragraphs 8.2 and 8.4] Differences between actual and assumed experience in relation to insurance risk are recognised in income [paragraph 8.3]	ED/2010/8 and both AASB Standards require re-measurement of cash flows and risk margins at each reporting date AASB 1038 treats the impact of actual versus assumed experience differently from the impact of changed assumptions, with the latter being adjusted against the planned margin, rather than impacting immediately on income or expense
Subsequent reinsurance contract measurement	Update measurement of PV of fulfilment cash flows and for changes in reinsurer's non-performance risk [paragraph 49]	Impair claim recovery assets if there is objective evidence and the impact can be reliably measured [paragraphs 10.1 to 11.1.3]	Not specifically dealt with and unlikely to be relevant	

Subject	*ED/2010/8*	*AASB 1023*	*AASB 1038*	*Comment*
Pre-claims liability for short-duration contracts	Short duration = coverage period approximately one year or less, with no (remaining) embedded option Initially measure at amount of premiums received less incremental acquisition costs Subsequently reduce over coverage period: * based on passage of time; but * based on expected pattern of claims and benefits if that differs significantly from the passage of time Accrete interest on the pre-claims liability using the time value discount rate If PV of fulfilment cash flows exceeds remaining liability (deferred premiums), recognise the loss immediately [paragraphs 54 to 60]	Pre-claims liability – see subject headings ***Initial contract measurement*** and ***Pre-claims liability for short-duration contracts*** measured at amount of deferred premium Deferred premium recognised over the contract period in accordance with the pattern of the incidence of risk expected [paragraph 4.3] Liability adequacy test required – if the PV of expected cash flows exceeds unearned premium, a loss is recognised immediately [paragraph 9.1]	Not relevant	The AASB 1023 premium deferral approach to pre-claims liabilities is highly similar to the ED/2010/8 approach to short-duration contracts 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

Subject	*ED/2010/8*	*AASB 1023*	*AASB 1038*	*Comment*
Instruments with discretionary participation features	Boundary is up to the point at which the contract holder no longer has rights to discretionary participation feature 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: * based on passage of time; but * based on fair value of assets under management if that differs significantly from the passage of time [paragraphs 62 to 66]	Not relevant	Apply the same requirements as for other life insurance contracts, and: * 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 [paragraphs 8.9 and 9.1 to 9.2.5]	The ED/2010/8 proposals and AASB 1038 requirements are likely to have similar outcomes
Derecognition	When obligation specified in contract is extinguished, and the insurer is no longer at risk [paragraph 67]	Not specifically dealt with	Not specifically dealt with	The ED/2010/8 proposal is unlikely to cause any change in practice

Subject	*ED/2010/8*	*AASB 1023*	*AASB 1038*	*Comment*
Balance sheet presentation and related disclosure	Each portfolio as a single asset or liability Reinsurance – show gross Pool of assets underlying unit-linked contracts – show separate item Portion of unit-linked liabilities linked to pool of assets [paragraphs 69 to 71]	Central estimate of claims incurred Component related to risk margin Percentage risk margin for claim liability Probability of adequacy for claims liability How diversification of risks has been allowed for Process used to determine which assets back general insurance business Reinsurance – show gross [paragraph 17.2]	Reinsurance – show gross Disaggregated information by statutory fund and by unit-linked versus non-unit linked, including: * investment assets * life insurance liabilities * retained earnings * regulatory solvency position Process used to determine which assets back life insurance business Retained earnings: * wholly attributable to shareholders * allocation between policyholders and shareholders is yet to be determined [paragraph 17.4 to 17.11, and 18.2	Many of the AASB 1038 disclosures relate to the manner in which Australian life insurers are required to conduct business

Subject	***ED/2010/8***	***AASB 1023***	***AASB 1038***	***Comment***
Income statement presentation and related disclosure	Underwriting margin, showing separately: * change in risk adjustment * release of residual margin Losses on portfolio transfers Gains on reinsurance Losses on initial insurance contract recognition Non-incremental acquisition costs Differences between actual cash flows and estimates (experience adjustments) Changes in estimates (cash flows and discount rates) Reinsurance impairments Separately for short-duration contracts accounted for using a deferred premiums – underwriting margin disaggregated by premiums, claims, expenses, and acquisition cost amortisation Reinsurance – show gross Separately, income / expense for: * unit-linked contract liabilities * assets underlying unit-linked contracts [paragraphs 72 to 78]	Premium revenue (direct) Reinsurance premium revenue Reinsurance and other recoveries Net claims incurred showing separately: * amount for risks borne in current period * amount for reassessment of risks borne in previous periods Underwriting result Gross claims incurred (undiscounted) Reinsurance and other recoveries (undiscounted) Discount movements for each of gross claims incurred and reinsurance and other recoveries [paragraph 17.1]	Total premiums and claims as well as unbundled amounts Profit related to movement in life insurance liabilities Movement in life insurance liabilities showing: * planned margins * difference between actual and assumed experience * effects of changed underlying assumptions * losses on related product groups Disaggregated information by statutory fund and by unit-linked versus non-unit linked, including: * premium revenue * investment income * claims * operating expenses * profit or loss * transfer between funds * regulatory solvency position [paragraphs 16.1, 17.1 and 17.2]	The impact of unbundling would mean that many premiums and claims would be recognised directly on the balance sheet, not via the income statement. 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.

Subject	***ED/2010/8***	***AASB 1023***	***AASB 1038***	***Comment***
General disclosure	Qualitative and quantitative information about: * amounts arising from insurance contracts * nature and extent of risks arising from insurance contracts Information to help users evaluate the timing, amount and uncertainty of future cash flows from insurance contracts, including: * reconciliation from opening to closing contract balances * methods and inputs used for measurement * confidence levels This includes sensitivities to changes of variables and concentrations of risks, and other disclosures similar to those required by IFRS 7 Claims development for no longer than 10 years [paragraphs 79 to 97]	Information that identifies and explains amounts arising from insurance contracts, including gross claims, deferred acquisition costs, direct premiums, direct claims expense, acquisition costs expense 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) [paragraphs 17.6 to 17.6.6 and 17.7 to 17.7.5]	Information that identifies and explains amounts arising from insurance contracts, including gross claims, deferred acquisition costs, direct premiums, direct claims expense, acquisition costs expense 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 [paragraphs 14.1 to 15.1.3]	Although the wording is different between the AASB Standards and ED/2010/8, they share many of the same disclosure notions It is relevant to note that the IASB developed its ED/2010/8 proposals from the existing IFRS 4 disclosures

Subject	*ED/2010/8*	*AASB 1023*	*AASB 1038*	*Comment*
Other – related assets	Assets backing unit-linked contracts, for which existing requirements result in an accounting mismatch, recognise and measure at FVTPL 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) [Appendix C]	To the extent feasible under IFRSs, assets backing general insurance liabilities must be recognised and measured at FVTPL [paragraphs 15.1.1 to 15.5.2]	To the extent feasible under IFRSs, assets backing general insurance liabilities must be recognised and measured at FVTPL [paragraphs 10.1.1 to 10.7.2]	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 The exceptions are that: * 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)

Subject	***ED/2010/8***	***AASB 1023***	***AASB 1038***	***Comment***
Transition	Adjust as at beginning of earliest period presented against retained earnings No residual margin on existing business Any deferred acquisition costs are immediately derecognised Permitted to redesignate financial assets as measured at FVTPL if this would eliminate mismatch or reduce inconsistency in measurement or recognition [paragraphs 98 to 102]	Not relevant	Not relevant	Is effectively a mixture of retrospective and prospective transitional adjustments. 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 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. 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.