

# IASB Board Meeting – Insurance Contracts

## PricewaterhouseCoopers Summary of Meeting

20 October 2009

Since a variety of viewpoints are discussed at IASB meetings, and it is often difficult to characterise the IASB's tentative conclusions, these minutes may differ in some respects from the IASB Observer notes published by the IASB. In addition, tentative conclusions may be changed or modified at future IASB meetings. Decisions of the IASB become final only after completion of a formal ballot to issue an Exposure Draft or Standard.

### Highlights

The IASB held a Board meeting on 20 October 2009. The observer notes for the meeting summarised the decisions made in the project so far. The papers also outlined the timetable which proposes publishing an exposure draft in January 2010 with comments due in May 2010 and a final standard in June 2011. However, a revised timetable will be presented to the Board at the November meeting.

At this meeting the Board discussed 3 issues:

- **Issue 1:** Unbundling
- **Issue 2:** Presentation of the performance statement
- **Issue 3:** Deposit Floor

On Issue 1 the Board did not make any firm decision on unbundling and the staff will bring further information to a subsequent meeting.

On issue 2 the Board concluded that the presentation method in Example 1 (traditional non-life model) flows from the decision to require the use of the Unearned Premium approach for short duration contracts in the pre-claims phase. For other insurance contracts there was support for both the Fee presentation and Margin presentation methods. There was a request for disclosure of the separate components of revenue to indicate the different profit drivers.

On issue 3 the Board voted not to require a deposit floor. The discussion led to quite a debate on the boundaries of the contract.

### Issue 1: Unbundling

The Staff paper on unbundling noted that an insurance contract may contain insurance, deposit (or financial) and service components. The Board discussed whether to account for those components of a contract as if they were separate contracts that require unbundling.

The Staff recommended requiring unbundling of insurance contracts if the components in a contract are not interdependent but not to state whether unbundling is prohibited or permitted in other cases. One Board member believed that the two contract examples in the staff paper can be unbundled. Another Board member expressed the view that he sees interdependency as derivative elements between the investment and insurance elements in the contract. Others supported the Staff's view that unbundling should not be required if there are interdependencies.

There was a lengthy discussion as to how interdependence should be defined as some Board members were concerned that that the decision for insurance contracts may be different from the accounting for revenue in other industries. However, the Board requested the staff to explore the issue further and define what is meant by the interdependency of insurance and investment elements of products. The Staff will go back to the Insurance Working Group members and field test companies and bring the topic back to the December meeting for a decision.

### Issue 2: Presentation of the performance statement

The purpose of the paper on presentation was to provide material for a preliminary discussion on the presentation of insurance contracts in the statement of comprehensive income. This paper will also be re-used for a discussion on presentation at the October joint meeting with FASB.

The staff put forward four possible presentation models. The first model is the traditional life model where premiums are recognised immediately as revenue and a liability recognised as an expense – this method received no support from the Board. The second is the traditional non-life model where premiums are recognised as a liability and transferred to revenue as they are deemed to be earned. The third option is the fee approach where elements of premium that are expected to be repaid to the same policyholder are recognised as a deposit receipt and the amount charged to a policyholder for protection against risk is recognised as revenue when the insurer performs under the contract. The final method is the margin approach whereby premiums are recognised as a deposit receipt. The portion of margin that relates to the release from risk that is no longer needed is recognised as revenue.

The Board concluded that the traditional non-life presentation method flows from the decision to require the use of the Unearned Premium approach for short duration contracts in the pre-claims phase with the earned premium line representing revenue. One Board member noted that he would like the decision to require the use of the Unearned Premium approach to be reconsidered.

For other insurance contracts there were support for both the fee presentation and the margin presentation methods. For the fee approach, Board members indicated that the deposit element should be excluded from the income statement as is currently the case under US GAAP for universal life contracts. However, there was general support for a view that irrespective of whether the margin or fee presentation method was followed, more transparency is required of the revenue line. This could be achieved through the segregation of revenue components which are driven by different profit drivers such as mortality, persistency etc. (backed up by appropriate disclosure). Some Board members expressed the view that changes to the risk margin should be explicitly presented.

### Issue 3: Deposit floor

In its May 2009 meeting, the Board decided tentatively that the measurement of insurance contracts should include the expected cash flows resulting from those contracts, including those cash flows whose amount or timing depends on whether policyholders exercise options in the contract. In the staff's view, one consequence of that approach is that the measurement of insurance contracts can be less than the amount payable on demand (i.e. it does not include a deposit floor).

The discussion triggered a lot of debate especially with regard to the boundary of a contract. There was debate as to whether the issuer of an insurance contract that contained options for the policyholder to take up other insurance elements, such as additional lives covered by the contract or property cover, which have not yet been exercised should be included in the determination of expected future cash flows and measured as part of the existing contract.

The Board took a vote to reconfirm an earlier decision that for a single insurance contract the expected future cash flows would include those that depend on a policyholder exercising an option. Three members voted against this. In a vote as to whether a deposit floor would be required for this insurance contract, three members voted in favour of requiring a deposit floor.

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