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Insurance accounting

Changes on the horizon for accounting for general insurance contracts

July 2016

kpmg.com/ifrs

Insurance - Accounting changes are coming

"The new IFRS insurance contracts standard will be published soon.

Now is the time for entities to begin assessing the impact the standard will have on their key performance indicators and processes."

Joachim Kölschbach,

KPMG's global IFRS insurance leader

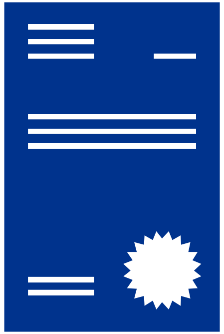
It’s time to start assessing the impact

The coming changes impact companies’ accounting if they issue…

insurance or reinsurance contracts

or

any contracts defined as such by the standard



The coming changes will affect…

Volatility in your financial results

Broad business decisions

Systems and processes

Operational performance and measurement

Capital management

Your people

Key features

A new, comprehensive accounting model

It’s based on the fulfilment objective, and uses current assumptions and discount rates

General measurement model

Four building blocks

Estimates of **future cash flows**

Discounting to reflect the time value of money

Risk adjustment

Contractual service margin (CSM)
Profit to be recognised over life of the contract

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Premium allocation approach (PAA)

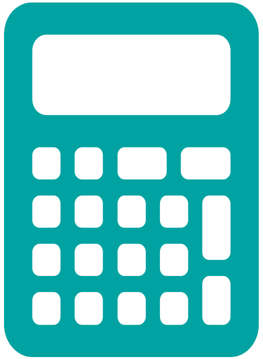
Optional for certain short-duration contracts

A proxy for the building block approach

Similar to current practice for non-life contracts

Discounting of claim provisions required
unless practical expedients are applied

Subsequent measurement of the PAA



Adjust the carrying amount for changes to current market discount rates for incurred claims

Recognise revenue on the basis of passage of time…

or…

If the expected risk pattern differs from this, the expected timing of incurred claims and benefits

Transition

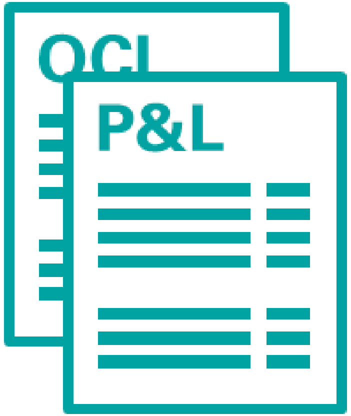
Full retrospective application is required

Practical expedients and fair value approach available for determining CSM and discount rates

Limited ability to redesignate some financial assets on initial application

Restate comparative information

Presentation and disclosures



Investment components excluded from insurance revenue

Entities can choose to present effect of discount rates changes in OCI or in P&L to reduce volatility

Multiple new disclosures add complexity

Mandatory effective date

Expected to be at least three years between the date the final standard is issued and the mandatory effective date

Earliest possible		Alternative
1 JANUARY 2020	or	1 JANUARY 2021

Determining the impact

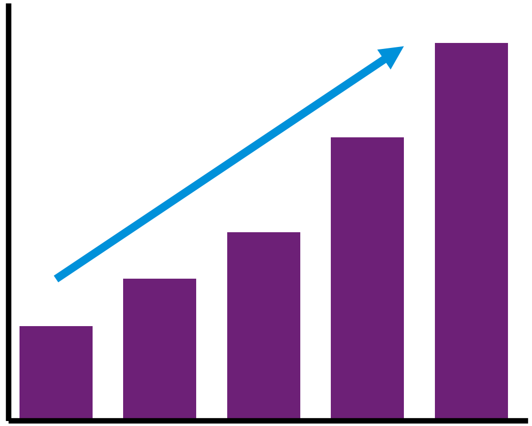
Volatility in your financial results

Volatility may result from the use of current market discount rates that are not linked to an insurer’s investment portfolio

Operational performance measurement

Level of aggregation may reduce comparability

Transparency about expected profitability of contracts in force

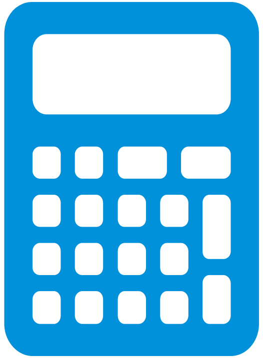


Broad business decisions

Measurement and scoping criteria may require changes to product profiles, features or pricing

New reporting basis may have tax implications in some jurisdictions

Capital management



Possible significant change in capital amount at transition

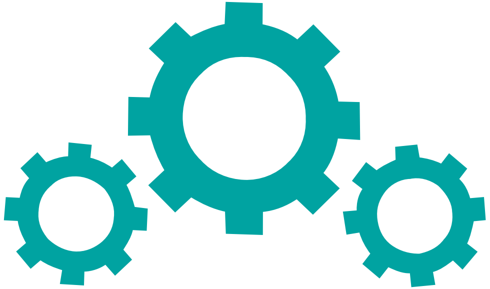
The reflection of current market rates may result in greater interest in asset-liability management

Systems, processes, and controls

Changes may be needed to develop, test and implement processes and controls

Systems and actuarial models may need upgrading

Transition may require early planning and parallel runs



Your people

A co-ordinated response within the organisation is essential

Additional resources and interaction with actuaries may be needed to manage transition and reporting processes

Compensation arrangements and performance targets may need to change

Next steps

Accounting, tax and reporting

Review your contracts

Plan your accounting policy decisions

Assess possible alignment with solvency and regulatory reporting

Identify impact on capital positions and volatility sources

Consider benchmarking against peers

Processes

Identify processes affected and establish new processes to…

Evaluate contract classification

Calculate the measurement and release of insurance contract liabilities

Systems

Upgrade systems to ensure that they can handle new requirements…

Accounting systems and internal controls

Actuarial modelling capabilities

Valuation and financial reporting systems

Your business

Review product profiles and consider changes to product design and pricing

Revisit investment allocations and asset-liability management

Evaluate existing reinsurance programmes for their impact on results

Assess impacts on key performance metrics

People and change

Determine staff needs

Train finance, actuarial, and other relevant teams

Evaluate impact on compensation arrangements

Communicate performance and metric changes to stakeholders

Assess the impact of changes to processes

KPMG can help you

Assess the impacts

Design the right solution

Implement a future state

- Accounting diagnostics
- Process and information gap analysis
- Financial impact assessments
- Data requirements

Next steps

Think about your implementation plan

Speak to your usual KPMG contact

Find out more at kpmg.com/ifrs

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