



# Insurance accounting

Changes on the horizon for  
accounting for life insurance contracts

July 2016

[kpmg.com/ifrs](http://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**

**or**

**investment contracts with a DPF**



DPF = direct participation feature

# The coming changes will affect...



**Volatility in your financial results**



**Operational performance and measurement**



**Broad business decisions**



**Capital and asset-liability management**



**Systems and processes**



**Your people**



# Key features

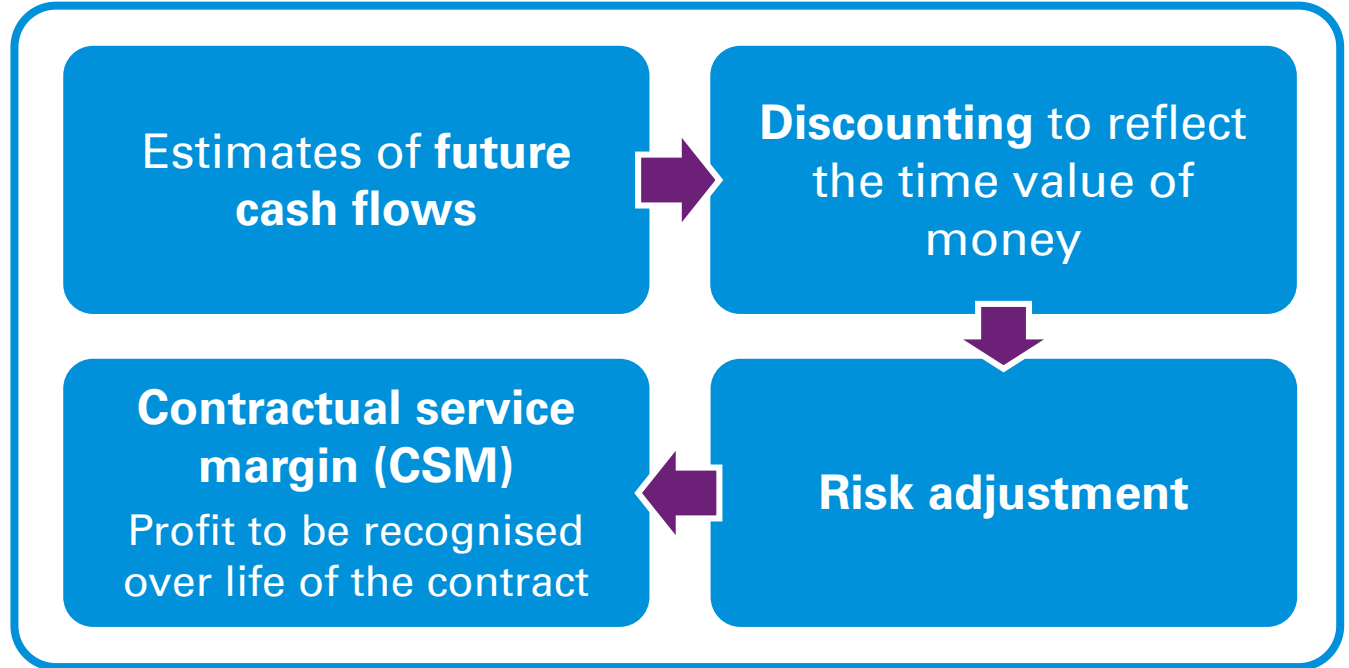
# A new, comprehensive accounting model

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



# General measurement model

## Four building blocks

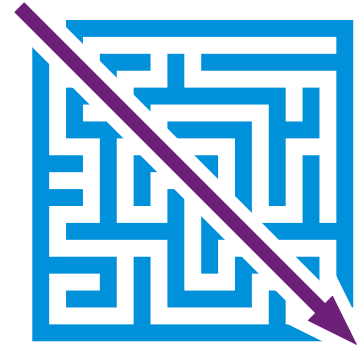


# Premium allocation approach

**Optional for certain short-duration contracts**

**A proxy for the building block approach**

**Discounting of claim provisions required  
unless practical expedients are applied**





# Variable fee approach

**The building blocks still apply**

**The approach considers the variable fee associated with direct participating contracts**

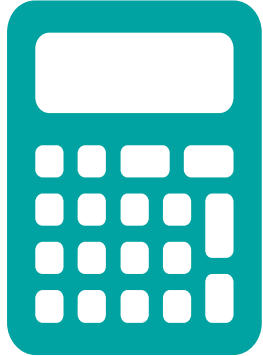
**The underlying items can be held or indexed**

**Underlying items  
related to policyholder  
participation**

**Obligation to  
policyholder**

**Fee for service**

# Subsequent measurement



## Update assumptions

- future cash flows
- discount rates
- risk margins

Adjust the **CSM** for changes to **cash flows** and **risk margins** related to future coverage and services

Recognise other changes in comprehensive income

# 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



**Revenue presentation based on provision of service pattern**

**Investment components excluded from insurance revenue**

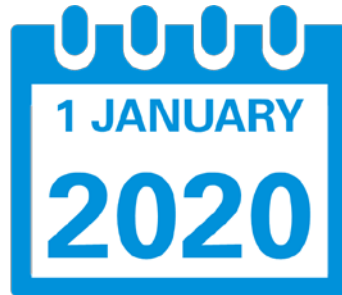
**Entities can choose to present effect of discount rate and market variable changes in OCI or P&L to reduce volatility**

**Multiple new disclosures add complexity**

# Mandatory effective date

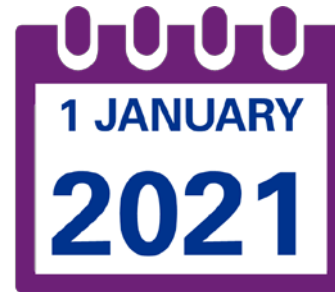
**Expected to be at least three years between the date the final standard is issued and the mandatory effective date**

**Earliest possible**



or

**Alternative**

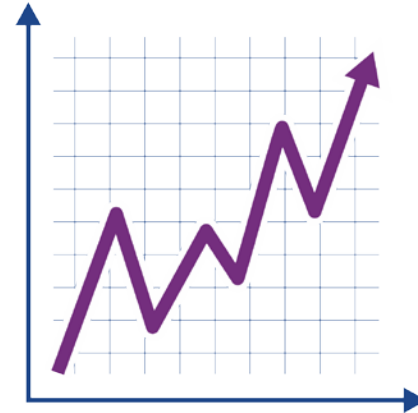




# Determining the impact

# Volatility in your financial results

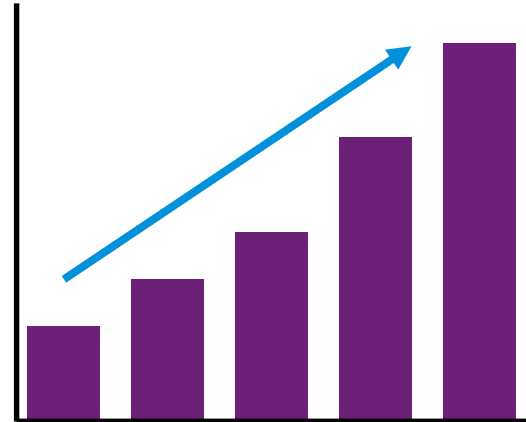
**Volatility may increase because current information and assumptions will be used**



# Operational performance measurement

**Level of aggregation may reduce comparability**

**Transparency about expected profitability of contracts in force**





# Broad business decisions

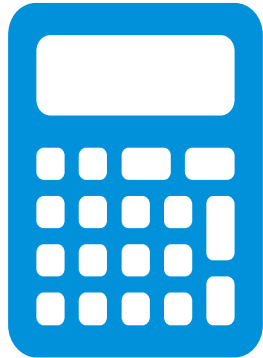
**Measurement and separation criteria**  
may require changes to product  
profiles, features or pricing

**More transparency about guarantees**  
may alter business decisions

**New reporting basis may have tax**  
**implications in some jurisdictions**



# Capital and asset-liability management



**Possible significant change in capital amount at transition**

**Interaction with IFRS 9 may impact investment allocations and asset-liability management**

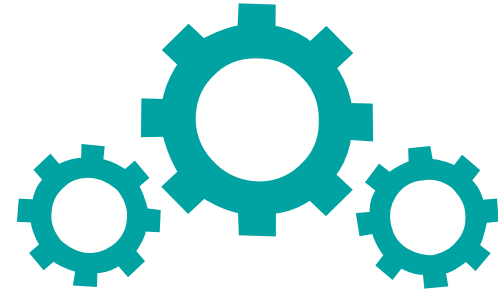
**Accounting mismatches may occur, but can be reduced by using accounting policy choices**

# 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 and separation criteria**

**Evaluate specific criteria for contracts under the variable fee approach**

**Calculate 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**



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