

Accounting for revenue is changing

Impact on insurance companies



Do you have:

- contracts that are wholly, or partially, in the scope of IFRS 15?
- bundled service contracts?
- non-refundable up-front fees?
- contracts with variable consideration?
- costs related to in-scope contracts?
- a clear plan for transition?

How could your business be affected?

Insurers should not underestimate the potential impact of the new revenue standard that was published jointly by the IASB and FASB in May 2014¹. Although the new revenue standard does not apply to insurance contracts, it may apply to other arrangements – such as asset management, insurance broking, pension administration, claims handling or custody services. While the new revenue standard is almost completely converged, due to underlying differences in insurance accounting – that are not the focus of this document – the effect on companies reporting under IFRS and US GAAP could be significantly different.

Assessing the impact of the new revenue standard will require both an understanding of the new revenue recognition model and an analysis of how the new model applies to particular transactions that fall in the scope of the new standard.

The new revenue standard takes effect in January 2017, although IFRS preparers can choose to apply it earlier. While the effective date may seem a long way off, decisions need to be made soon – namely, when and how to transition to the new standard. An early decision will allow you to develop an efficient implementation plan and inform your key stakeholders.

1. IFRS 15 and FASB ASC Topic 606 *Revenue from Contracts with Customers*.

Determining the impact

Do you have ...	Potential impact	Actions to consider
... contracts that are wholly, or partially, in the scope of IFRS 15?	- Insurance contracts or contractual rights and obligations in the scope of the financial instruments guidance are fully, or partially, scoped out of the new revenue standard. This is largely consistent with current practice. - Non-insurance service contracts – such as asset management, insurance broking, pension administration, claims handling or custody services – may fall entirely in the scope of the new standard. - Contracts that are partially in the scope of another standard – e.g. investment management contracts that originate one or more financial instruments – are first subject to the requirements of the other standard if that standard specifies how to separate and/or initially measure one or more parts of the contract.	- Determine which contracts fall entirely, or partially, in the scope of the new revenue standard through a comprehensive review of contracts with customers. - Analyse at a high level the impact on the amount and timing of revenue recognition. - Identify data ‘gaps’ between what is presently available and what is necessary to meet the new requirements.
... bundled service contracts?	- Non-insurance service contracts may integrate different services into a single package – e.g. administrative services, asset management and custody services. IFRS 15 includes new guidance for such arrangements, including: - new separation criteria that may affect which services are bundled or unbundled; and - new guidance on determining and allocating the transaction price for each performance obligation.	- Evaluate bundled non-insurance service contracts against the new separation criteria. - Consider changes necessary for existing systems, processes and internal controls to facilitate new estimates and judgements. - Consider whether any contract terms should be modified for the impact of the new standard.
... non-refundable up-front fees?	- Accounting for non-refundable up-front fees received at or near inception – e.g. front-end loaded fees received for investment management contracts – will depend on whether the fee: - relates to a specific good or service transferred to the customer; or - represents an advance payment for future goods and services in the contract, including future contract periods. - The new requirements may cause differences from current practice. - The timing of the receipt of an up-front fee in comparison to the transfer of the services it relates to, may give rise to a significant financing component. In this case, the transaction price may need to be adjusted to reflect the time value of money, unless the practical expedient not to adjust for the time value of money when the time between receipt of cash and delivery of services is applicable and elected by the company.	- Assess the impact of new guidance on the timing of revenue recognition for any non-refundable up-front fees. - Determine whether the timing of the receipt of a non-refundable up-front fee creates a significant financing component in a contract.
... contracts with variable consideration?	- Insurers may earn performance-based incentive fees for investment management services, which are subject to the revenue ‘constraint’ under the new standard. - When determining the transaction price, a company estimates the amount of variable consideration using either the ‘expected value’ or ‘most likely amount’ method. - The estimated variable consideration is included in the transaction price to the extent it is highly probable² that a significant revenue reversal will not subsequently occur.	- Consider whether new models or processes are needed to determine the transaction price. - Evaluate the impact of the new standard on internal management reporting and key performance indicators.

2. The term ‘highly probable’ in the IFRS version of the new standard has been used with the intention of converging with the term ‘probable’ as used in the US GAAP version of the new standard.

Do you have ...	Potential impact	Actions to consider
... costs related to in-scope contracts?	- Under IFRS 15, a company is required to capitalise certain costs incurred in obtaining a contract and in fulfilling a contract, if specified criteria are met. This may include capitalisation of broker commissions payable when an investment contract is obtained, unless the practical expedient not to capitalise fees that would be amortised within a year or less is applicable and elected by the company. - Capitalised costs are amortised on a systematic basis consistent with the transfer of the associated goods and services. - Judgement will be needed to determine the appropriate period and pattern of amortisation – e.g. whether the amortisation period should include anticipated future contract periods. These may differ from the amortisation period of similar costs incurred to obtain insurance contracts.	- Assess whether the current capitalisation policy is consistent with the new requirements. - Make changes to existing systems to capture the costs that will be capitalised and/or to reflect amortisation periods. - Develop a policy for evaluating the asset for impairment.
... a clear plan for transition?	- Developing an implementation plan that considers the requirements of the recent financial instruments standard and forthcoming insurance contracts standard may not be straightforward. - IFRS 15 may be adopted retrospectively, by restating comparatives and adjusting retained earnings at the beginning of the earliest comparative period. - Alternatively, IFRS 15 may be adopted as of the application date, by adjusting retained earnings at the beginning of the first reporting period and disclosing the effect of adoption on each line of profit or loss for the first period of application.	- Perform a high-level gap analysis to identify potential drivers of changes in accounting for revenue and certain contracts. - Develop an overall strategy for transition that incorporates all accounting changes expected in the near future – i.e. the new financial instruments standard and forthcoming insurance contracts standard – and capitalises on any available synergies.

Interaction between IFRS 15 and the forthcoming insurance contracts standard

Given the expected three-year lead time from publication to implementation, the effective date of the forthcoming insurance contracts standard is expected to fall well after that of IFRS 15 – i.e. 1 January 2017.

Where the proposed scoping requirements of the forthcoming insurance contracts standard differ from current practice, implementation of the forthcoming insurance contracts standard may cause some contracts currently accounted for under IFRS 4 *Insurance Contracts* to fall wholly, or partially, in the scope of IFRS 15. Such contracts may include:

- certain fixed-fee service contracts – e.g. roadside assistance programmes, capitation and fixed-fee medical service arrangements in the healthcare sector, and equipment and maintenance costs – which are permitted, but not required, to be excluded from the scope of the forthcoming insurance contracts standard; and
- service components – i.e. performance obligations to provide goods or non-insurance services – embedded within some insurance contracts which are distinct and required to be separated from the insurance contract.

Find out more

You can find out more detailed information about IFRS 15 in our publications [Transition to the New Revenue Standard](#) and [Issues In-Depth](#).

Visit our [Global IFRS Institute](#) for access to KPMG's most recent publications on the IASB's major projects and other activities, including our [IFRS – revenue](#) and [IFRS – insurance](#) hot topics pages.

How we can help

KPMG's Insurance practice

KPMG's Insurance practice is a global network of professionals offering skills, insights and knowledge based on substantial experience. KPMG can identify the issues early and can share leading practices to help avoid the many pitfalls of such projects. For those affected by the new revenue requirements, we can advise you on your transition to the new standards, including designing an approach to implementation that incorporates fast-approaching regulatory changes. The following are just a few examples of how our cross-functional team of experts can help you with the accounting and operational challenges, subject to independence limitations.

- Performing an impact assessment to identify expected accounting changes and broader implications for your business, including the impact on management compensation metrics, performance targets and KPIs.
- Challenging assumptions you have made when considering new judgements and estimates.
- Identifying system and process changes necessary to collect new data and perform new calculations, taking into consideration new disclosure requirements.
- Assisting in redrafting accounting policies, technical accounting memos, new disclosures, contracts and agreements.
- Developing a communication plan to minimise surprises for stakeholders.
- Developing and executing training plans for employees across functions and locations.
- Setting up a project team with representatives from risk management, accounting, tax, regulatory and IT teams, with an appropriate governance structure, realistic timescales and clear accountabilities.



Starting now will allow you to assess the impact and design an appropriate implementation plan that allows time for unanticipated complexity.

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1. Recogida y finalidad principal

Los Datos que nos ha facilitado, o que obtengamos en el futuro, serán incorporados para su tratamiento en ficheros cuya responsabilidad corresponde a KPMG, con domicilio en Paseo de la Castellana 95, 28046, Madrid, para el mantenimiento, desarrollo y control de nuestra relación profesional.

2. Otras finalidades del tratamiento y comunicaciones a terceros

Adicionalmente, y salvo que en el plazo de los 40 días siguientes al envío de esta comunicación nos indique lo contrario en la forma prevista en el apartado 4. siguiente, los Datos serán tratados para: (i) el envío de información y comunicaciones comerciales sobre los servicios, actividades, publicaciones, celebraciones y acontecimientos sociales y profesionales de KPMG, así como felicitaciones, por cualquier medio, incluido el correo electrónico u otros medios de comunicación electrónica equivalente; y (ii) su comunicación a las firmas españolas afiliadas a KPMG Internacional (KPMG España) y a otras firmas afiliadas a KPMG Internacional (en adelante, "KPMGI"), al objeto de que dichas sociedades puedan remitirle, por cualquier medio, incluido el correo electrónico u otros medios de comunicación electrónica equivalente, información y comunicaciones comerciales sobre sus servicios, actividades, publicaciones, celebraciones y acontecimientos sociales y profesionales, así como felicitaciones.

Las sociedades de KPMGI están ubicadas en España y en el extranjero (en países miembros de la Unión Europea, así como en terceros países que pueden ofrecer un nivel de protección no equiparable al español) y se relacionan y puede obtener información detallada sobre dichas entidades a través de la página web: www.kpmg.es

3. Conservación de sus datos de carácter personal

Sus Datos serán conservados en nuestros ficheros mientras se mantenga vigente nuestra relación profesional y durante los plazos legal o contractualmente previstos para el ejercicio de cualquier acción por parte de Usted o de KPMG. En cualquier caso, al término de nuestra relación sus Datos serán debidamente bloqueados, según lo previsto en la LOPD.

No obstante lo anterior, una vez finalizada nuestra relación se podrá seguir haciendo uso de sus Datos para fines comerciales, en los estrictos términos y condiciones señaladas en el apartado anterior, hasta que Usted no revoque el consentimiento que nos ha dado, si tal fuera el caso.

4. Ejercicio de derechos

En relación con cualquiera de las sociedades integrantes de KPMG España, para el ejercicio de: (i) los derechos de acceso, rectificación y cancelación de los Datos; (ii) el derecho de oposición a cualquiera de los tratamientos indicados en los apartados 1 y 2 anteriores, y (iii) la revocación de cualquiera de los consentimientos otorgados; podrá dirigirse mediante correo postal a Dpto. de Asesoría Jurídica KPMG, Paseo de la Castellana 95, 28046 Madrid, o enviando un mensaje de correo electrónico a la siguiente dirección: derechosarco@kpmg.es indicando en ambos casos su nombre y apellidos así como especificación del derecho que desea ejercitar.

En caso de que quiera oponerse a los tratamientos solicitados en los apartados 1 y 2 anteriores, envíe un correo electrónico a la dirección de correo electrónico derechosarco@kpmg.es, indicando:

i) Su nombre y apellidos y el texto "NO CONSIENTO el tratamiento de mis Datos personales para ninguna finalidad".

ii) Su nombre y apellidos y el texto "NO CONSIENTO el tratamiento de mis Datos personales para el envío de información y comunicaciones comerciales, por cualquier medio, sobre los servicios, actividades, publicaciones, celebraciones y acontecimientos sociales y profesionales de KPMG"

iii) Su nombre y apellidos y el texto "NO CONSIENTO la comunicación de mis Datos a favor de las sociedades de KPMGI para las finalidades informadas".

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