



Insurance accounting

Changes on the horizon for
accounting for life 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

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



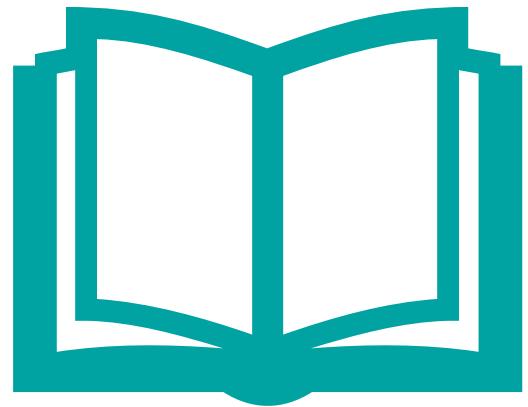
Your people



Key features

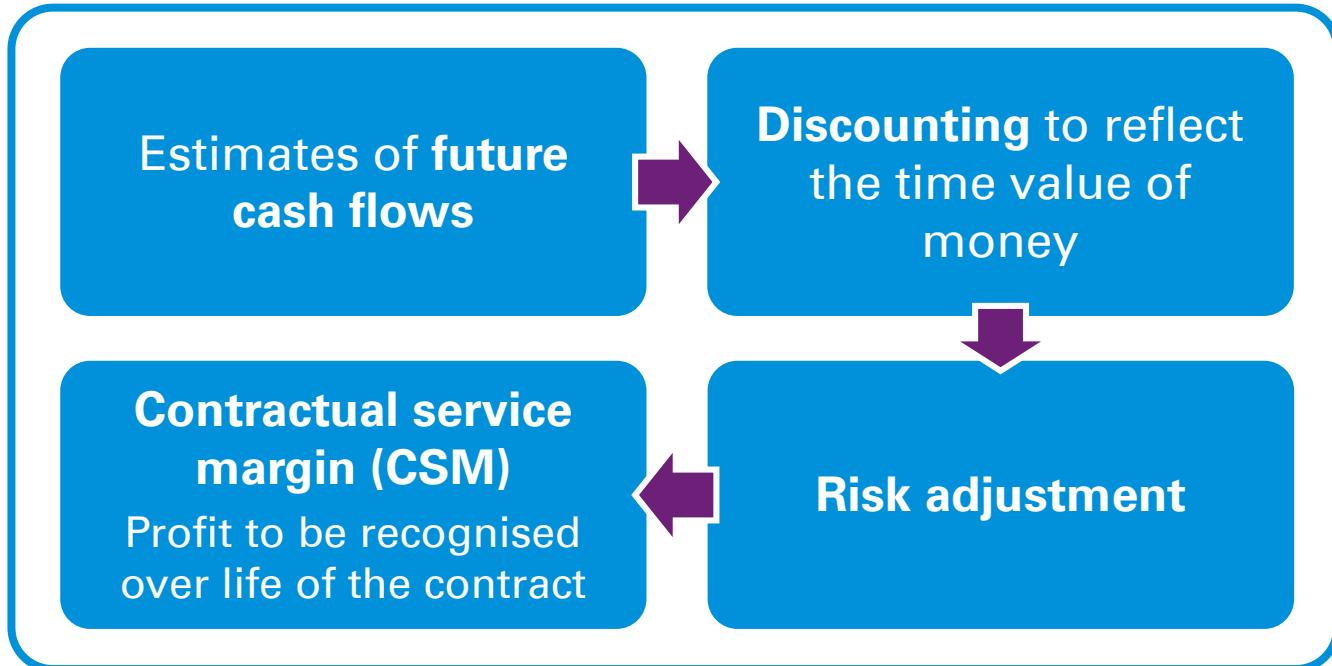
A new, comprehensive accounting model

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



General measurement model

Four building blocks

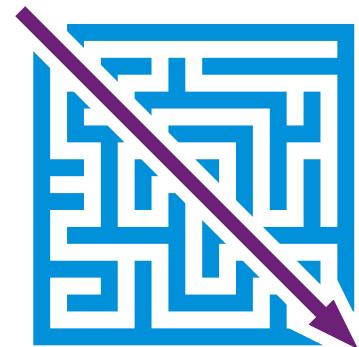


Premium allocation approach

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

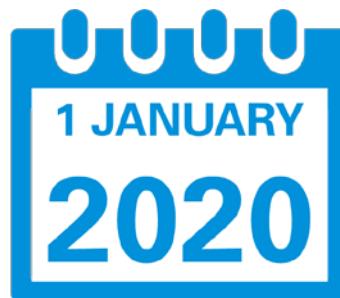
Entities can choose to present effect of discount rate and market variable changes in OCI or P&L to reduce volatility

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



Alternative



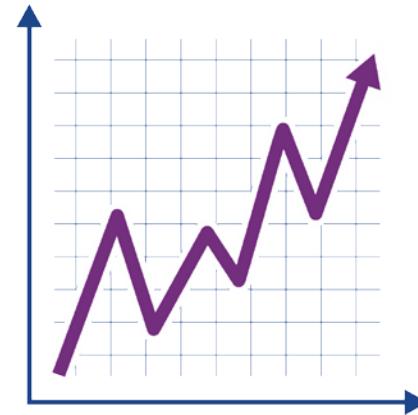
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Determining the impact

Volatility in your financial results

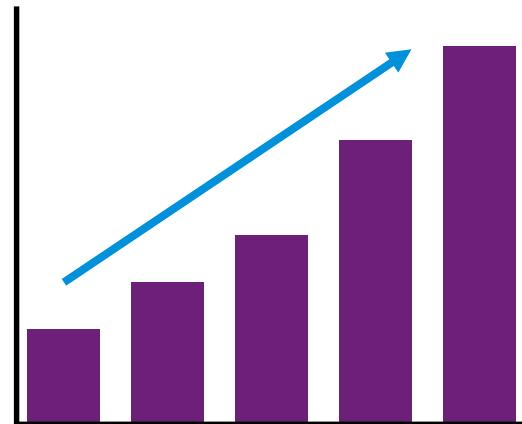
**Volatility may increase because
current information and assumptions
will be used**



Operational performance measurement

Level of aggregation may reduce comparability

Transparency about expected profitability of contracts in force



Broad business decisions

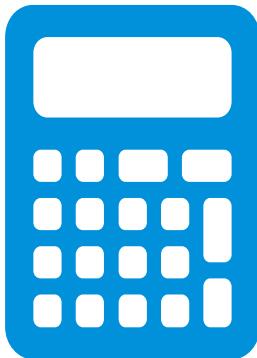
**Measurement and separation criteria
may require changes to product
profiles, features or pricing**

**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

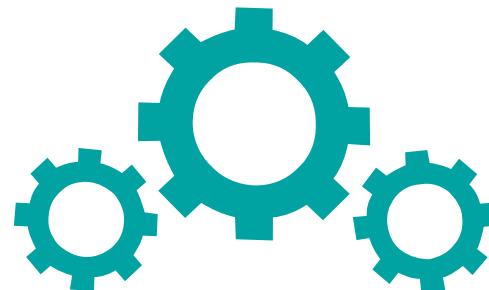
Accounting mismatches may occur, but can be reduced by using accounting policy choices

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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