2011

Technical Summary

IFRS 4 *Insurance Contracts*

as issued at 1 January 2011. Includes IFRSs with an effective date after 1 January 2011 but not the IFRSs they will replace.

This extract has been prepared by IFRS Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.

The objective of this IFRS is to specify the financial reporting for *insurance contracts* by any entity that issues such contracts (described in this IFRS as an *insurer*) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires:

(a) limited improvements to accounting by insurers for insurance contracts.

(b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An *insurance contract* is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The IFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments*. Furthermore, it does not address accounting by policyholders.

The IFRS exempts an insurer temporarily (ie during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the *Framework* in selecting accounting policies for insurance contracts. However, the IFRS:

(a) prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalisation provisions).

(b) requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.

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(c) requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

The IFRS permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:

(a) measuring insurance liabilities on an undiscounted basis.

(b) measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.

(c) using non-uniform accounting policies for the insurance liabilities of subsidiaries.

The IFRS permits the introduction of an accounting policy that involves remeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

The IFRS requires disclosure to help users understand:

(a) the amounts in the insurer’s financial statements that arise from insurance contracts.

(b) the nature and extent of risks arising from insurance contracts.