IFRS 17 Balance sheet presentation: Premium receivable and Claims payable
Issues Paper

Introduction

1 IFRS 17 will require separate presentation of portfolios of insurance contracts in an asset and liability position. This is on the basis of all the cash flows expected to arise from fulfilling the contracts in the portfolio, including premiums receivable and claims payable. IAS 1 permits disaggregation where this provides useful information.

2 Insurers as well as the ANC are concerned about the loss of information as the IFRS 17 requirements will remove items currently commonly presented on the face of the balance sheet such as premium receivables, policy loans and reinsurance collateral (funds withheld) as well as claims payable. The CFO Forum also cited the considerable cost this would entail.

IASB staff's reasoning for not recommending an amendment to IFRS 17

3 The IASB staff thought that amending IFRS 17 to require the separate presentation of premiums receivable and claims payable from the insurance contract asset or liability could:

(a) reduce comparability between entities — the IASB staff understood that systems currently used by entities recognise premiums receivable over different periods for different contracts. For example, one entity may only recognise premiums due in the current month that were not yet received, while another entity may reflect premiums due in the next 12 months in premiums receivable.

(b) unduly disrupt implementation already under way and risk undue delays in the effective date of IFRS 17 if the IASB were to develop a consistent definition of premiums receivable and claims payable.

4 The IASB staff noted that paragraph 55 of IAS 1 Presentation of Financial Statements permits the presentation of additional line items including by disaggregation of required line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

5 The IASB agreed with the staff analysis and declined to amend IFRS 17.

Different views presented

View 1– Agree with the decision to retain IFRS 17 requirements with the following specific comments

6 The presentation requirements of IFRS 17 is consistent with its measurement principle i.e. a current estimate of all expected cash flows within the contract boundary. The balance sheet reflects the combination of rights and obligations created by the contract as a whole.

7 The IASB considers that it would take considerable effort to find a common definition of premiums receivable given the differences in current practice.

View 2 – Amendment needed to the standard to reflect these items on the balance sheet with the follow specific comments

8 Insurers are concerned about the loss of information as the IFRS 17 requirements will remove items currently commonly presented on the face of the balance sheet such as premium receivables, policy loans and reinsurance collateral (funds withheld) as well as claims payable.

9 Others indicate that there would be significant costs required to their systems in order to meet the presentation requirements of IFRS 17.

Summary of the EFRAG IAWG discussion – May 2019

10 This topic was discussed at the EFRAG IAWG meeting and the following comments were provided:

Description of the remaining concern

11 Currently, amounts such as premiums due or reinsurance amounts are disclosed separately as part of assets on the balance sheet. Under IFRS 17, these amounts form part of the liability for insurance contracts.

12 Some are concerned about the loss of information while others indicate that there would be significant costs required to their systems in order to meet the presentation requirements of IFRS 17.

13 This impacts all entities.

14 Current actuarial systems only include those expected amounts that not yet considered to be due[1]. Therefore, in order to solve the cost concern, the following would need to happen:

(a) A definition for receivables/amounts due would need to be developed; and

(b) IFRS 17 would have to then deal with the remaining future cash flows.

Can the issue be solved without amendments to the standard?

15 Preparers indicated that they may be able to solve the concern by proxies or short cuts such as including the amounts receivable in the insurance liability.

Other comments

16 EFRAG Secretariat observed that it would take considerable time and effort to develop a definition for premium receivables; in addition, for some, their current definition would then inevitably differ from the 'new' definition, resulting in costs and new concerns.

Summary of the EFRAG TEG discussion – March 2019

17 One EFRAG TEG member argued that the unit of account in IFRS 17 was conceptually flawed as cash inflows should be separated from cash outflows. Hence, there was a need to separately disclose receivables. This view was challenged by other members as the unit of account in IFRS 17 is considered as a bundle of rights and obligations and would include both inflows and outflows whether or not receivables and payables are separated.

[1] Experience shows that this differ according to custom and local GAAP and for this reason why the IASB has declined to define 'premium receivables'.

18 EFRAG TEG suggested that a definition of receivables would be needed if receivables were to be separated given the current diversity in practice. A receivable was considered to be unconditional, in line with IFRS 15 *Revenue from Contracts with Customers*, while under current practices some receivables incorporated conditional rights to receive a premium.

19 Based on background research the EFRAG Secretariat noted that receivables were not presented separately on the balance sheet today by most insurers, even if they are separated from the insurance liabilities. EFRAG IAWG advised that there was very little credit risk in the receivables taken as a whole. Thus, some questioned the purpose of the separate presentation.

20 Overall, it was thought that the issue was related to operational complexity due to the lack of existing integration between the cash collection systems and the accounting systems.

21 EFRAG TEG members agreed that if further questions were to be raised the technical merit of the issues had to be established, e.g. why the separate presentation of an unconditional right as defined by the insurer is a fair presentation in the balance sheet

Summary of the EFRAG TEG discussion – May 2019

22 EFRAG TEG members observed that the remaining issue was about the operational costs of the presentation requirements; one EFRAG TEG member considered that there was a conceptual issue about the loss of relevant information.

23 The operational costs related to the linkage of actuarial and finance system and this linkage was essential to achieve IFRS 17 measurement; however as mentioned in the IAWG report the use of practical expedients was possible.

24 EFRAG TEG members expressed concern about the range of definitions of premiums receivable currently used and that agreement on a definition would not be easy.

25 One EFRAG TEG member considered that IFRS 9 *Financial Instruments* should be applied to the premiums receivable. On credit risk, one EFRAG TEG member referred to the CFO Forum presentation to EFRAG TEG in March 2019 which said the credit risk is often negligible.

26 One EFRAG TEG member noted that if separate presentation is considered appropriate then the consequences under IFRS 9 and IFRS 15 Revenue from Contracts with Customers (contract asset accounting for premiums received in advance of services provided) should also be considered. This would then need to be consistently applied, i.e. everyone would be required to apply expected credit loss under IFRS 9. Another EFRAG TEG member asked how the IFRS 15 definition of receivable would apply to a ten-year insurance contract and whether this meant that the premiums for the full period would be recognised as a receivable. It was not clear what the outcome would be.

27 Some EFRAG TEG members indicated that this was more a concern for the PAA than for life contracts, but others considered there was no conceptual reason for differentiation.

28 An observer (regulator) commented that in order to be as specific as possible, any proposal made by EFRAG on this topic should spell out what additional/new technical elements should have been taken into account by the IASB as part of its work on the proposed amendments.

29 7 EFRAG TEG members supported the IASB tentative decision to retain the requirements in the standard. They considered the following reasoning:

(a) The presentation requirements in IFRS 17 were consistent with the unit of account and members agreed with the idea of presenting the bundle of rights and obligations of the insurance contract;

(b) If separate presentation of components is deemed necessary to provide relevant information, IAS 1 provides a solution as entities may separately present on the face of the balance sheet the different components.

30 1 EFRAG TEG member supported the view that amending IFRS 17 to require separate presentation of premium receivables/claim payables was necessary for conceptual reasons, as the current presentation requirements were obscuring relevant information. This member did not consider that measurement consequences were attached to this issue.

31 3 EFRAG TEG members did not explicitly express a view.

Question for EFRAG Board and EFRAG TEG

32 Members are invited to note the views of EFRAG IAWG (wanting a change to the standard, but also acknowledging that the issue may be solved by proxies or short cuts) and of TEG (support view 1 to not change the standard).

33 Based on the technical discussions presented above, what are your comments and orientation at this stage of the process?

Appendix: other information

Input from CFO Forum

1 The CFO Forum considers that these requirements, that impact only presentation, would require major system changes compared to the current approach, which is a well-established industry practice.

2 These changes will also lead to insurance receivables no longer being separately visible in the balance sheet, which is a deterioration in relevance of the financial statements for both life and general insurance insurers.

3 Companies have considered the implications for implementation and maintenance of systems for these requirements and found that the complexity and costs will very significant.

4 The CFO Forum indicated that IFRS 17.33 should be amended as follows:
An entity shall include in the measurement of a group of insurance contracts all the future cash flows that are not due within the boundary of each contract in the group […]

5 For clarification, IFRS 17.B66 should be amended as follows:
[…] cash flows that are already due to be paid or received. Any rights or obligations to receive or to pay cash flows that are unconditional and due shall be accounted for in accordance with IFRS 9.

Input from ANC

6 The ANC considers it would be a loss of important information and therefore suggests the following amendments to IFRS 17:

IFRS 17.78: An entity shall present separately in the statement of financial position the carrying amount of ~~groups of~~:

(a) ~~insurance contracts issued that are assets~~ premium receivables related to insurance contracts,
(b) liabilities for remaining coverage (including contractual service margin) related to insurance contracts,
(c) liabilities for incurred claims related to insurance contracts,
(d) premium receivables (reinsurer) and payables (insurer) related to reinsurance contracts,
(e) liabilities for remaining coverage (reinsurer) and asset for reinsurance contracts held (insurer) for reinsurance contracts,
(f) liabilities for incurred claims (reinsurer) and assets for reinsurance contracts held (insurer) for reinsurance contracts,
(g) liabilities for deposits received (insurer) and assets for deposits made (reinsurer) related to reinsurance contracts.
~~(b) insurance contracts issued that are;~~
~~(c) reinsurance contracts held that are assets;~~
~~(d) reinsurance contracts held that are liabilities.~~

70 Appendix A: Premium receivable: represents the unconditional right of the entity to consideration for the coverage to be provided. It takes into account the effective, not the theoretical, period before policyholder's rights to coverage actually lapse.

Results from the EFRAG Case Study

7 One respondent assessed with evidence of one portfolio that there would be a lack of transparency and undue cost;

8 Four respondents indicated that this was an issue and highlighted the following practical considerations:
(a) Meeting reporting deadlines given the lack of granular interaction between modelling and cash systems.

(b) Due to the lack of granular information about receivables at contract level in the reporting systems, an allocation method would have to be defined. The weighting of a group of contracts and its allocations would change over time and allocations could lead to a systematic underestimation of receivables and payables for new annual cohorts.