March 2023

Insurance Accounting Alert

IFRS Interpretations Committee to issue tentative agenda decision on premiums receivable from an intermediary (IFRS 17 and IFRS 9)

What you need to know

- On 14 and 15 March, the IFRS Interpretations Committee (the Committee) discussed two related submissions regarding the application, by an entity that issues insurance contracts, of IFRS 17 *Insurance Contracts (IFRS 17)* and IFRS 9 *Financial Instruments (IFRS 9)* to premiums receivable from an intermediary.
- The submissions consider a fact pattern where the policyholder has paid in cash the premiums that are due under an insurance contract to an intermediary. The insurer has not yet received in cash the premiums from the intermediary, but is legally obliged to provide insurance contract services from this point as the policyholder discharged its obligation under the insurance contract.
- The Committee agreed to publish a tentative agenda decision (TAD) for public comment that sets out the applicable requirements in IFRS 17 and IFRS 9 when the policyholder pays the premium to the intermediary under the terms described in the submissions.
- The Committee considers the requirements could accommodate two views with regard to the fact pattern:
  - **View 1:** when the policyholder pays the premiums to the intermediary, the insurer continues applying IFRS 17, including the premiums receivable in the measurement of a group of insurance contracts until recovered in cash.
  - **View 2:** when the policyholder pays the premiums to the intermediary, the insurer removes the premiums from the measurement of a group of insurance contracts and recognises a separate financial asset applying IFRS 9.

Overview

At its March 2023 meeting, the Committee discussed two related submissions regarding the application by an entity that issues insurance contracts, of IFRS 17 and IFRS 9 to premiums receivable from an intermediary. The Committee agreed to publish a tentative agenda decision (TAD) for public comment that sets out the applicable requirements with regard to the fact pattern in the submissions.

Background

The Committee is the interpretative body of the International Accounting Standards Board (IASB). It works with the IASB in supporting the application of IFRS standards and responds to questions about the application of standards.

The story so far

The IASB issued IFRS 17 in May 2017, it then issued targeted amendments to IFRS 17 in June 2020 and another narrow scope amendment to IFRS 17, *Initial Application of IFRS 17* and *IFRS 9–Comparative Information* in December 2021. The Committee issued its first two agenda decisions related to the application of IFRS 17 in 2022: *Transfer of Insurance Coverage under a Group of Annuity Contracts* (IFRS 17), and *Multi-currency Groups of Insurance Contracts* (IFRS 17 and IAS 21 *The Effects of Changes in Foreign Exchange Rates*). Our publication International GAAP®, which is updated annually, provides further details on the requirements.

Submissions

The submissions, included as an appendix to the staff paper prepared for the meeting, seek the views of the Committee regarding the application of IFRS 17 and IFRS 9 to premiums receivable by an insurer from an intermediary.

In the fact pattern in the submissions, the policyholder has paid in cash the premiums that are due under an insurance contract to an intermediary. The insurer has not yet received in cash the premiums from the intermediary, but is obliged to provide insurance contract services from this point as the policyholder discharged its obligation under the insurance contract. If the intermediary fails to pay the premiums to the insurer, the insurer does not have the right to recover the premiums from the policyholder, or to cancel the insurance contract.

The submissions present two possible views, which are presented in the TAD, as follows:

View 1
For a group of contracts to which the premium allocation approach does not apply, when the policyholder pays the premiums to the intermediary, the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. When the policyholder pays the premiums to the intermediary, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, includes them in the measurement of a group of insurance contracts until recovered in cash.

When applying View 1 to a group of contracts to which the insurer applies the premium allocation approach, when the policyholder pays the premiums to the intermediary the insurer does not increase the liability for remaining coverage – it does so only when it recovers the premiums in cash from the intermediary.

View 2
Because the payment by the policyholder discharges its obligations under the insurance contract, the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary. The insurer, therefore, determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but, instead, a separate financial asset. When the policyholder pays the premiums to the intermediary, the insurer removes the premiums from the measurement of the group of insurance contracts and, applying IFRS 9, recognises a separate financial asset.

When applying View 2 to a group of contracts to which the insurer applies the premium allocation approach, the insurer increases the liability for remaining coverage in IFRS 17 when the policyholder pays the premiums to the intermediary and recognises a separate financial asset applying IFRS 9.

Analysis in the TAD

The analysis included in the TAD discussed by the Committee is outlined below:

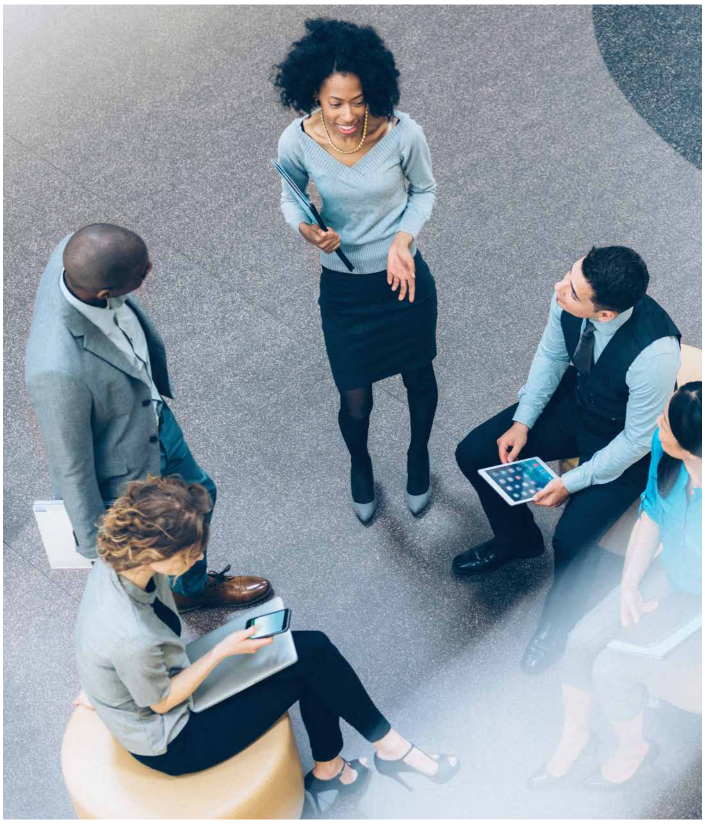
Cash flows within the boundary of an insurance contract under IFRS 17
The measurement of a group of insurance contracts includes all future cash flows within the boundary of the contracts in the group. IFRS 17 states these include premiums from a policyholder and it does not make a distinction between premiums to be collected directly from a policyholder or through an intermediary. In applying IFRS 17, premiums from a policyholder collected through an intermediary are, therefore, included in the measurement of a group of insurance contracts. As such, at inception of a contract, the starting point for these expected cash flows is IFRS 17.

Removing cash flows from the measurement of a group of insurance contracts
In the fact pattern described in the submissions, the insurer has not recovered the premiums in cash. The TAD states that IFRS 17 is silent on when cash flows are removed from the measurement of a group of insurance contracts under IFRS 17.

The Committee considers that in accounting for premiums receivable from an intermediary when payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer can apply either View 1 or View 2.

Information about credit risk
Considering both View 1 and View 2 as possible outcomes, the implications of both views for information about credit risk were discussed.

The Committee noted that IFRS 17 and IFRS 9 deal differently with the measurement, presentation and disclosure of expected credit losses from an intermediary. The Committee considered that, depending on which view (View 1 or View 2) an insurer applies, it is required to apply all the measurement and disclosure requirements in either IFRS 17 (including the required disclosure of information about credit risk that arises from contracts within the scope of IFRS 17) or IFRS 9 (and the requirements in IFRS 7 *Financial Instruments: Disclosures)* to the premiums receivable from an intermediary.



Conclusion

The Committee considers that because IFRS 17 is silent on when future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts, in the fact pattern described in the requests, an insurer could account for premiums paid by a policyholder and receivable from an intermediary applying either IFRS 17 or IFRS 9.

The Committee recommended not to add a standard-setting project to the work plan. It noted that any such project would involve assessing whether any changes to the Standards have unintended consequences and this may take considerable time and effort to complete (including analysing a broad range of contracts). It also observed that application of either View 1 or View 2 would provide useful information to users of financial statements based on the application of either IFRS 17 or IFRS 9. Therefore, a project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs.

Observations from the meeting

Some Committee members expressed a strong preference for View 1 and believed that IFRS 17 should apply until the insurer has received the premium payment in cash from the intermediary. Some also referred to the practical and operational challenges that view 2 could create, given the complex nature and scale of insurance intermediaries involved, and the challenges in knowing what premiums have been received by intermediaries.

Other Committee members had a similarly strong leaning towards View 2, based on the rights and obligations set out in the specific fact pattern, considering the intermediary to be acting on behalf of the insurer in this scenario. The policyholder has settled their obligation to the insurer on making a payment to the intermediary, and the insurer is required to provide services to the policyholder. A separate receivable from an intermediary should be recognised at this point, as the risk is now the risk of intermediary default, and an IFRS 9 receivable should be recognised with the applicable measurement and disclosure requirements.

Most Committee members agreed that, on balance, they could see merits in both views, or at least could not prohibit either view based on the wording in the standards for the fact pattern described in the submissions. However, a number of Committee members expressed difficulty with the way the notion of judgement was used in the TAD initially prepared by the staff. Following the feedback by the Committee, the staff agreed to replace the reference to judgement in the initial TAD with an explanation that focuses on the determination of what the standards require in the version of the TAD to be published for public comment. As a consequence, the staff also agreed to take out the reference to the specific disclosure about significant judgement under IAS 1 *Presentation of Financial Statements*.

The Committee also agreed not to add a standard-setting project to its work plan.

How we see it

- As indicated by the responses to the staff's outreach to TRG members, this issue can be significant for insurers in many jurisdictions, with different approaches emerging. As such, the Committee addressing this matter will provide clarity on how insurers can apply either IFRS 17 or IFRS 9 to the premiums paid by the policyholder and the receivable from the intermediary for the fact pattern included in the submissions.
- The discussion by the Committee highlights that this would be an important choice to be disclosed by reporting entities as well as a material disclosure on credit risk if there are credit risk concentrations in relation to intermediaries.
- While the proposed interpretation in the TAD looks at the scoping of IFRS 17 and IFRS 9 for a specific fact pattern (i.e., that which is set out in the submissions), it does not consider how the views could be applied to other fact patterns. It is, therefore, important that preparers consider the guidance in the TAD and how it would apply to their arrangements with intermediaries.

Next steps

The Committee published its tentative agenda decision for public comment on 22 March 2023. The deadline for comments is 22 May 2023. After considering comments received, the Interpretations Committee will decide at a future meeting, whether to confirm its decision and publish a final agenda decision (subject to the IASB not objecting).

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