September 2023

Insurance Accounting Alert

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

What you need to know

- On 12 September, the IFRS Interpretations Committee (the Committee) discussed comments received on its tentative agenda decision (TAD) on Premiums Receivable from an Intermediary IFRS 17 *Insurance Contracts* (IFRS 17) and IFRS 9 *Financial instruments* (IFRS 9).
- The TAD addresses submissions on the treatment of premiums receivable from an intermediary in a fact pattern where the policyholder has paid in cash the premiums that are due under an insurance contract to an intermediary, and thereby discharged its obligations under the contract. 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.
- The Committee did not change its overall technical analysis and conclusions, as laid out in the TAD, that the requirements could accommodate two views in relation to this fact pattern.
- The Committee agreed to the following changes to the TAD, proposed by the staff, in response to comments received:
  - To clarify that, for the fact pattern in the submissions, determining when cash flows are removed from the measurement of a group of insurance contracts is an accounting policy choice according to IAS 8
  - To focus the wording in the agenda decision on the key reasons for its technical analysis
- The Committee agreed to finalise the agenda decision, subject to some additional changes to the wording mentioned during the meeting and subject to the IASB's agreement.

Overview

At its September 2023 meeting, the Committee discussed comments received on the TAD issued after its March meeting, when it considered 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.

Background

The Committee is the interpretative body of the International Accounting Standards Board (IASB). It works with the IASB to support the application of IFRS standards and responds to queries about the application of standards. In March 2023, the Committee discussed its third submission relating to IFRS 17, on the application of IFRS 17 and IFRS 9 to premiums receivable from an intermediary, and subsequently issued a TAD for public comment.

The story so far

The IASB issued IFRS 17 in May 2017, it then issued targeted amendments to IFRS 17 in June 2020, following the Exposure Draft (ED) on proposed *Amendments to IFRS 17* (published in June 2019 and subsequent re-deliberations based on feedback received on the ED from stakeholders). Our publication International GAAP®, which is updated annually, provides further details on the requirements. The IASB issued a narrow scope amendment to IFRS 17 *Initial Application of IFRS 17 and IFRS 9—Comparative Information in December 2021*. The Committee issued its first agenda decision in respect of IFRS 17 in July 2022: *Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)*, which relates to the interpretation of IFRS 17 regarding the service provided by a life contingent annuity and how to recognise that service through the release of the contractual service margin (CSM). It subsequently issued another agenda decision in October 2022 on the application of IFRS 17 *Insurance Contracts (IFRS 17) and IAS 21 The Effects of Changes in Foreign Exchange Rates* (IAS 21) to a group of insurance contracts that generates cash flows in more than one currency.

Premiums receivable from an intermediary (IFRS 17 and IFRS 9)

At its March 2023 meetings, the Committee discussed its TAD on Premiums receivable from an intermediary. The submissions considered a fact pattern where the policyholder has paid in cash the premiums that are due under an insurance contract to an intermediary, and thereby discharged its obligations under the contract. 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. In this scenario, the submissions asked whether, at the point the policyholder pays the premium to the intermediary, an insurer should remove the premiums receivable from measurement under IFRS 17 and recognise a separate financial asset under IFRS 9.

The Committee then published a tentative agenda decision (TAD) for public comment that set out the applicable requirements in IFRS 17 and IFRS 9, which it considered could accommodate two views with regard to the fact pattern in the submissions.

View 1

- Under View 1, the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. 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 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.

The Committee agreed with the staff recommendation not to add a standard-setting project to the work plan, also considering that any such project would involve assessing whether any changes to the Standards have unintended consequences.

Further details on the TAD are available in our March 2023 Insurance Accounting Alert.

September Committee meeting

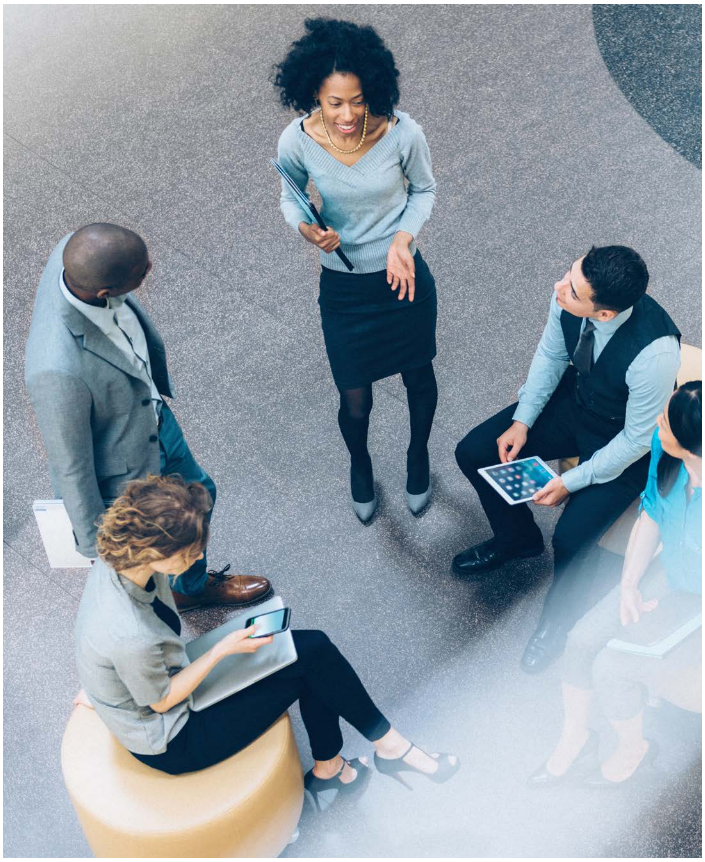
At its September meeting, the Committee considered the staff's analysis of the 16 comment letters received on the TAD.

Technical analysis in the TAD

15 of the 16 respondents agreed, or did not disagree, with the conclusion in the TAD that either View 1 or View 2 is permissible.

Some respondents noted their agreement with the technical analysis outlined by the staff:

- IFRS 17 is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract. In applying IFRS 17, premiums from a policyholder collected through an intermediary are included in the measurement of a group of insurance contracts
- IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash



- When payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer can apply either View 1 (IFRS 17) or View 2 (IFRS 9)
- Depending on which view an insurer applies, it is required to apply all the measurement and disclosure requirements in the applicable IFRS Accounting Standards

One of the respondents expressed a preference for view 2, on the basis that the risk of recovery of the receivable is more clearly linked to the intermediary than to insurance contract cash flows.

Only one respondent disagreed and thought View 2 is the only appropriate accounting treatment, considering regulations in their jurisdiction where the intermediary is appointed by the insurer and acts as his agent. The insurer's right to receive premiums from an intermediary is a separate right and does not arise under an insurance contract with the policyholder but arises from a service agreement between the insurer and the intermediary.

The Committee did not change its technical analysis and conclusions as laid out in the TAD, but agreed that the wording of the agenda decision should focus on the key reasons set out in the technical analysis noted above.

The Committee also agreed with the staff recommendation to rephrase the wording in the TAD as to why it did not recommend adding a standard-setting project to the work plan for this issue. Such a project would not be sufficiently narrow in scope to be addressed in an efficient manner or result in an improvement that would outweigh the costs involved.

Accounting policy

In response to comments received, the Committee agreed with the staff recommendation to clarify that how an entity accounts for premiums receivable from an intermediary in this fact pattern is an accounting policy. Entities will need to determine an accounting policy for when cash flows are removed from the measurement of a group of insurance contracts – either when the cash flows are recovered or settled in cash (View 1), or when the policyholder's obligation under the insurance contract is discharged (View 2).

The Committee also agreed to clarify that the accounting policy should be developed in line with the requirements of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8).

Observations from the meeting

Some Committee members expressed a continued leaning towards view 2, but stated they would not disagree with the conclusions reached or with finalising the agenda decision. One of these Committee members acknowledged that, at this point, an accounting policy choice was the best way to address the issue and he did not disagree with the conclusions. Another noted that no new arguments were presented in the comment letters received that would alter the tentative conclusion reached previously.

The Committee members agreed that the agenda decision should clarify that an entity's accounting policy is developed in line with the requirements of IAS 8. However, the Committee members agreed not to include the additional paragraph proposed by the staff that an insurer develops an accounting policy that results in information that is relevant and reliable and is applied consistently for all similar transactions, as this should be evident.

Two Committee members, while accepting the conclusions reached, also noted that, where material, it will be important for users of financial statements to know which view has been applied and to know that the accounting policy has been applied consistently to similar transactions.

All fourteen Committee members present agreed to finalise the agenda decision, including the changes to the wording mentioned above and subject to a few additional editorial changes.

How we see it

- Even though some may have already considered the application of the two views to constitute an accounting policy, making it explicit in the agenda decision is a useful clarification which highlights that entities will need to assess their situation and develop an accounting policy choice that they will apply consistently for similar transactions in accordance with IAS 8.
- However, as the proposed interpretation in the agenda decision looks at the scoping of IFRS 17 and IFRS 9 for the specific fact pattern set out in the submissions, it does not consider how the views in the agenda decision could be applied to other fact patterns. It is, therefore, important that entities consider the guidance in the agenda decision and how it would apply to their arrangements with intermediaries.
- Determining its policy choice would be an important decision to be disclosed by a reporting entity. It will also be important to provide any material disclosure on credit risk if there are credit risk concentrations in relation to premiums receivable from intermediaries.

Next steps

The IASB will consider the agenda decision at its October meeting, and if it does not object, the final agenda decision will be published in October.

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