PBE IFRS 4: INSURANCE CONTRACTS

Version 1: 2014

Effective Periods Beginning
1 April 2015

SCOPE OF NZ IFRS 4

This Standard applies to:

- Insurance contracts that an entity issues and reinsurance contracts that it holds.
- Financial instruments that an entity issues with a discretionary participation feature.

If insurance contracts include a deposit component, unbundling may be required.

The following are examples of contracts that **are** insurance contracts, if the transfer of insurance risk is significant:

- Insurance against theft or damage to property.
- Insurance against product liability, professional liability, civil liability or legal expenses.
- Life insurance and prepaid funeral expenses.
- Life-contingent annuities and pensions.
- Disability and medical cover.
- Surety bonds, fidelity bonds, performance bonds and bid bonds.
- Credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.
- Product warranties (other than those issued directly by a manufacturer, dealer or retailer).
- Title insurance.
- Travel assistance.
- Catastrophe bonds that provide for reduced payments of principal, interest or both if a specified event adversely affects the issuer of the bond.
- Insurance swaps and other contracts that require a payment based on changes in climatic, geological or other physical variables that are specific to a party to the contract.
- Reinsurance contracts.

The following are examples of items that **are not** insurance contracts:

- Investment contracts that have the legal form of an insurance contract but do not expose the insurer to significant risk.
- Contracts that pass all significant insurance risk back to the policyholder.
- Self-insurance i.e. retaining a risk that could have been covered by insurance.
- Gambling contracts.
- Derivatives that expose one party to financial risk but not insurance risk.
- A credit-related guarantee.
- Product warranties issued directly by a manufacturer, dealer or retailer.
- Financial guarantee contracts accounted for under PBE IPSAS 29 – *Financial Instruments: Recognition and Measurement*.

LIABILITY ADEQUACY TEST

An insurer is required to assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is not sufficient, the liability is increased and a corresponding expense is recognised in surplus or deficit.

AREAS OF ADDITIONAL GUIDANCE

Additional guidance is provided in PBE IFRS 4 in relation to;

- Changes in accounting policies.
- Prudence.
- Insurance contracts acquired in a business combination or portfolio transfer.
- Discretionary participation features.

It is highly recommended that insurers gain a full understanding of PBE IFRS 4 as requirements and disclosures are onerous.

Additional guidance is provided in Appendices A and B.

DISCLOSURE

An insurer is required to disclose information that identifies and explains the amounts arising from insurance contracts:

- Its accounting policies for contracts and related assets, liabilities, income and expense.
- Recognised assets, liabilities, income and expense.
- The process used to determine the assumptions that have the greatest effect on measurement.
- The effect of any changes in assumptions.
- Reconciliations of changes in liabilities and assets.

An insurer is required to disclose information that enables users of financial statement to evaluate the nature and extent of risks arising from insurance contracts:

- Its objectives, policies and processes for managing risks.
- Information about insurance risk.
- Information about credit risk, liquidity risk and market risk.
- Information about exposures to market risk arising from embedded derivatives.

TIER 2 RDR REPORTERS

RDR Reporters must comply with all of the provisions in PBE IFRS 4.

ALL ENTITIES

- An entity which is a life insurer as defined in PBE IFRS 4 Appendix C must comply with the requirements of Appendix C.
- An entity which issues insurance contracts, other than life insurers as defined in PBE IFRS 4 Appendix C, must comply with the requirements of PBE IFRS 4 Appendix D.