
**STATUTORY BOARD FINANCIAL
REPORTING STANDARD**

SB-FRS 104

Revised
Guidance on Implementing
Insurance Contracts

Extract marked up to show amendments to
paragraphs IG11—IG71

Contents

Paragraphs

EXTRACT FROM REVISED GUIDANCE ON IMPLEMENTING SB-FRS 104 *INSURANCE CONTRACTS*

[paragraphs IG1—IG10 are unchanged and not reproduced in this extract]

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This guidance accompanies, but is not part of, SB-FRS 104. This version was published in January 2006 and applies when an entity adopts SB-FRS 107 *Financial Instruments: Disclosures*. It supersedes the version published with SB-FRS 104 in September 2004.

Note: The text of the revised section (paragraphs IG11–IG71) is marked up to show the changes from the previous version: new text is underlined and deleted text is struck through.

Extract from Revised Guidance on Implementing SB-FRS 104 *Insurance Contracts*

This guidance accompanies, but is not part of, SB-FRS 104.

Disclosure

Purpose of this guidance

IG11 The guidance in paragraphs IG12–IG71 suggests possible ways to apply the disclosure requirements in paragraphs 36–39A of the SB-FRS. As explained in paragraphs 36 and 38 4(b) of the SB-FRS, the objective of the disclosures is:

- (a) to identify and explain the amounts in an insurer's financial statements arising from insurance contracts; and
- (b) to enable help-users of those financial statements to evaluate the nature and extent of risks arising understand the amount, timing and uncertainty of future cash flows from insurance contracts.

IG12 An insurer decides in the light of its circumstances how much detail it gives to satisfy those requirements, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information that has materially different characteristics. It is necessary to strike a balance so that important information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have materially different characteristics. For example:

- (a) a large international insurance group that operates in a wide range of regulatory jurisdictions typically provides disclosures that differ in format, content and detail from those provided by a specialised niche insurer operating in one jurisdiction.
- (b) many insurance contracts have similar characteristics. When no single contract is individually material, a summary by classes of contracts is appropriate.
- (c) information about an individual contract may be material when it is, for example, a significant contributor to an insurer's risk profile.

To satisfy the requirements, an insurer would not typically need to disclose all the information suggested in the guidance. This guidance does not create additional requirements.

IG13 SB-FRS 1 *Presentation of Financial Statements* ~~(as revised in 2004)~~ requires an entity to 'provide additional disclosures when compliance with the specific requirements in SB-FRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'

IG14 For convenience, this Implementation Guidance discusses each disclosure requirement in the SB-FRS separately. In practice, disclosures would normally be presented as an integrated package and individual disclosures may satisfy more than one requirement. For example, information about the terms and conditions of insurance contracts the assumptions that have the greatest effect on the measurement of amounts arising from insurance contracts may help to convey information about insurance risk and interest rate risk market risk.

Materiality

IG15 SB-FRS 1 notes that a specific disclosure requirement in a Standard or an Interpretation need not be satisfied if the information is not material. SB-FRS 1 defines materiality as follows:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

IG16 SB-FRS 1 also explains the following:

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 21 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Explanation of recognised amounts (paragraphs 36 and 37 of the SB-FRS)

Accounting policies

IG17 SB-FRS 1 requires disclosure of accounting policies and paragraph 37(a) of the SB-FRS highlights this requirement. In developing disclosures about accounting policies for insurance contracts, an insurer might conclude that it needs to address the treatment of, for example, some or all of the following, if applicable:

- (a) premiums (including the treatment of unearned premiums, renewals and lapses, premiums collected by agents and brokers but not yet passed on and premium taxes or other levies on premiums).
- (b) fees or other charges made to policyholders.
- (c) acquisition costs (including a description of their nature).
- (d) claims incurred (both reported and not reported), claims handling costs (including a description of their nature) and liability adequacy tests (including a description of the cash flows included in the test, whether and how the cash flows are discounted and the treatment of embedded options and guarantees in those tests, see paragraphs 15–19 of the SB-FRS). An insurer might disclose whether insurance liabilities are discounted and, if they are discounted, explain the methodology used.
- (e) the objective of methods used to adjust insurance liabilities for risk and uncertainty (for example, in terms of a level of assurance or level of sufficiency), the nature of those models, and the source of information used in the models.
- (f) embedded options and guarantees (including a description of whether (i) the measurement of insurance liabilities reflects the intrinsic value and time value of these items and (ii) their measurement is consistent with observed current market prices).
- (g) discretionary participation features (including a clear statement of how the insurer applies paragraphs 34 and 35 of the SB-FRS in classifying that feature as a liability or as a component of equity) and other features that permit policyholders to share in investment performance.
- (h) salvage, subrogation or other recoveries from third parties.
- (i) reinsurance held.
- (j) underwriting pools, coinsurance and guarantee fund arrangements.

- (k) insurance contracts acquired in business combinations and portfolio transfers, and the treatment of related intangible assets.
 - (l) as required by SB-FRS 1, the judgements, apart from those involving estimations, management has made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements. The classification of discretionary participation features is an example of an accounting policy that might have a significant effect.
- IG18 If the financial statements disclose supplementary information, for example embedded value information, that is not prepared on the basis used for other measurements in the financial statements, it ~~is might~~ be appropriate to explain the basis. Disclosures about embedded value methodology might include information similar to that described in paragraph IG17, as well as disclosure of whether, and how, embedded values are affected by estimated returns from assets and by locked-in capital and how those effects are estimated.

Assets, liabilities, income and expense

- IG19 Paragraph 37(b) of the SB-FRS requires an insurer to disclose the assets, liabilities, income and expenses that arise from insurance contracts. If an insurer presents its cash flow statement using the direct method, paragraph 37(b) requires it also to disclose the cash flows that arise from insurance contracts. The SB-FRS does not require disclosure of specific cash flows items. The following paragraphs discuss how an insurer might satisfy those general requirements.
- IG20 SB-FRS 1 requires minimum disclosures on the face of the balance sheet. An insurer might conclude that, to satisfy those requirements, ~~an insurer might it needs~~ to present separately on the face of its balance sheet the following amounts arising from insurance contracts:
- (a) liabilities under insurance contracts and reinsurance contracts issued.
 - (b) assets under insurance contracts and reinsurance contracts issued.
 - (c) assets under reinsurance ceded. Under paragraph 14(d)(i) of the SB-FRS, these assets are not offset against the related insurance liabilities.
- IG21 Neither SB-FRS 1 nor the SB-FRS prescribes the descriptions and ordering of the line items presented on the face of the balance sheet. An insurer could amend the descriptions and ordering to suit the nature of its transactions.
- IG22 SB-FRS 1 requires disclosure, either on the face of the balance sheet or in the notes, of subclassifications of the line items presented, classified in a manner appropriate to the entity's operations. Appropriate The subclassifications of insurance liabilities ~~that require separate disclosure~~ will depend on the circumstances, but might include items such as:
- (a) unearned premiums.
 - (b) claims reported by policyholders.
 - (c) claims incurred but not reported (IBNR).
 - (d) provisions arising from liability adequacy tests.
 - (e) provisions for future non-participating benefits.
 - (f) liabilities or components of equity relating to discretionary participation features (see paragraphs 34 and 35 of the SB-FRS). If an insurer classifies these features as a component of equity, disclosure is needed to comply with SB-FRS 1, which requires

an entity to disclose 'a description of the nature and purpose of each reserve within equity.'

- (g) receivables and payables related to insurance contracts (amounts currently due to and from agents, brokers and policyholders related to insurance contracts).
- (h) non-insurance assets acquired by exercising rights to recoveries.

IG23 Similar subclassifications may also be appropriate for reinsurance assets, depending on their materiality and other relevant circumstances. For assets under insurance contracts and reinsurance contracts issued, an insurer might conclude that it needs to distinguish:

- (a) deferred acquisition costs; and
- (b) intangible assets relating to insurance contracts acquired in business combinations or portfolio transfers.

IG23A Paragraph 15 of SB-FRS 107 *Financial Instruments: Disclosures* requires an entity to disclose the carrying amount of financial assets pledged as collateral for liabilities, the carrying amount of financial assets pledged as collateral for contingent liabilities, and any terms and conditions relating to assets pledged as collateral. In complying with this requirement, an insurer might also conclude that it needs to disclose segregation requirements that are intended to protect policyholders by restricting the use of some of the insurer's assets.

IG24 SB-FRS 1 lists minimum line items that an entity should present on the face of its income statement. It also requires the presentation of additional line items when this is necessary to present fairly the entity's financial performance. ~~An insurer might conclude that, to satisfy these requirements, an insurer might it needs~~ An insurer might conclude that, to satisfy these requirements, an insurer might it needs to disclose the following amounts on the face of its income statement:

- (a) revenue from insurance contracts issued (without any reduction for reinsurance held).
- (b) income from contracts with reinsurers.
- (c) expense for policyholder claims and benefits (without any reduction for reinsurance held).
- (d) expenses arising from reinsurance held.

IG25 SB-FRS 18 requires an entity to disclose the amount of each significant category of revenue recognised during the period, and specifically requires disclosure of revenue arising from the rendering of services. Although revenue from insurance contracts is outside the scope of SB-FRS 18, similar disclosures may be appropriate for insurance contracts. The SB-FRS does not prescribe a particular method for recognising revenue and various models exist:

- (a) Under some models, an insurer recognises premiums earned during the period as revenue and recognises claims arising during the period (including estimates of claims incurred but not reported) as an expense.
- (b) Under some other models, an insurer recognises premiums received as revenue and at the same time recognises an expense representing the resulting increase in the insurance liability.
- (c) Under yet other models, an insurer ~~reports~~ recognises premiums received as deposit receipts. Its ~~reported revenue includes~~ comprises charges for items such as mortality, ~~whilst and its expenses reported~~ policyholder claims and benefits comprise include the policyholder claims and benefits related to those charges.

IG26 SB-FRS 1 requires additional disclosure of various items of income and expense. An insurer might conclude that, to satisfy these requirements, an insurer might it needs to disclose the following additional items, either on the face of its income statement or in the notes:

- (a) acquisition costs (distinguishing those recognised as an expense immediately from the amortisation of deferred acquisition costs).
- (b) the effect of changes in estimates and assumptions.
- (c) losses recognised as a result of applying liability adequacy tests.
- (d) for insurance liabilities measured on a discounted basis:
 - (i) accretion of interest to reflect the passage of time; and
 - (ii) the effect of changes in discount rates.
- (e) distributions or allocations to holders of contracts that contain discretionary participation features. The portion of profit or loss that relates to any equity component of those contracts is an allocation of profit or loss, not expense or income (paragraph 34(c) of the SB-FRS).

IG27 Some insurers present a detailed analysis of the sources of their earnings from insurance activities either in the income statement, or as a complement to an income statement presented in a more traditional format. Such an analysis may provide useful information about both the income and expense of the current period and the risk exposures faced during the period.

IG28 The items described in paragraph IG26 are not offset against income or expense arising from reinsurance held (paragraph 14(d)(ii) of the SB-FRS).

IG29 Paragraph 37(b) also requires specific disclosure about gains or losses recognised on buying reinsurance. This disclosure informs users about gains or losses that may, using some measurement models, arise from imperfect measurements of the underlying direct insurance liability. Furthermore, some measurement models require a cedant to defer some of those gains and losses and amortise them over the period of the related risk exposures, or some other period. Paragraph 37(b) also requires a cedant to disclose information about such deferred gains and losses.

IG30 If an insurer does not adopt uniform accounting policies for the insurance liabilities of its subsidiaries, it might conclude that it needs to disaggregate the disclosures about amounts reported in its financial statements to give meaningful information about amounts determined using different accounting policies.

Significant assumptions and other sources of estimation uncertainty

IG31 Paragraph 37(c) of the SB-FRS requires an insurer to describe the process used to determine the assumptions that have the greatest effect on the measurement of assets, liabilities, income and expense arising from insurance contracts and, when practicable, give quantified disclosure of those assumptions. For some disclosures, such as discount rates or assumptions about future trends or general inflation, it may be relatively easy to disclose the assumptions used (aggregated at a reasonable but not excessive level, when where necessary). For other assumptions, such as mortality tables, it may not be practicable to disclose quantified assumptions because there are too many, in which case it is more important to describe the process used to generate the assumptions.

IG32 The description of the process used to determine assumptions might include a summary of the most significant of the following:

- (a) the objective of the assumptions. For example, an insurer might disclose whether the assumptions are intended to be neutral estimates of the most likely or expected outcome ('best estimates') or to provide a given level of assurance or level of sufficiency. If they are intended to provide a quantitative or qualitative level of assurance, an insurer might disclose that level.
- (b) the source of data used as inputs for the assumptions that have the greatest effect. For example, an insurer might disclose whether the inputs are internal, external or a mixture of the two. For data derived from detailed studies that are not carried out annually, an insurer might disclose the criteria used to determine when the studies are updated and the date of the latest update.
- (c) the extent to which the assumptions are consistent with observable market prices or other published information.
- (d) a description of how past experience, current conditions and other relevant benchmarks are taken into account in developing estimates and assumptions. If a relationship would normally be expected between experience and future results, an insurer might explain the reasons for using assumptions that differ from past experience and indicate the extent of the difference.
- (e) a description of how the insurer developed assumptions about future trends, such as changes in mortality, healthcare costs or litigation awards.
- (f) an explanation of how the insurer identifies correlations between different assumptions.
- (g) the insurer's policy in making allocations or distributions for contracts with discretionary participation features, the related assumptions that are reflected in the financial statements, the nature and extent of any significant uncertainty about the relative interests of policyholders and shareholders in the unallocated surplus associated with those contracts, and the effect on the financial statements of any changes during the period in that policy or those assumptions.
- (h) the nature and extent of uncertainties affecting specific assumptions. In addition, to comply with paragraphs 116–122 of SB-FRS 1, an insurer may need to disclose that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of insurance liabilities and insurance assets. Paragraph 120 of SB-FRS 1 gives further guidance on this disclosure.

IG33 The SB-FRS does not prescribe specific assumptions that would be disclosed, because different assumptions will be more significant for different types of contract.

Changes in assumptions

IG34 Paragraph 37(d) of the SB-FRS requires an insurer to disclose the effect of changes in assumptions used to measure insurance assets and insurance liabilities. This is consistent with SB-FRS 8, which requires disclosure of the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods.

IG35 Assumptions are often interdependent. When this is the case, analysis of changes by assumption may depend on the order in which the analysis is performed and may be arbitrary to some extent. Therefore, the SB-FRS does not specify a rigid format or content for this analysis. This allows insurers to analyse the changes in a way that meets the objective of the disclosure and is appropriate for their particular circumstances. If practicable, an insurer might disclose separately the impact of changes in different assumptions, particularly if changes in some assumptions have an adverse effect and others have a beneficial effect. An

insurer might also describe the impact of interdependencies between assumptions and the resulting limitations of any analysis of the effect of changes in assumption.

- IG36 An insurer might disclose the effects of changes in assumptions both before and after ~~the impact of~~ reinsurance held, especially if the insurer expects a significant change in the nature or extent of its reinsurance programme or if an analysis before reinsurance is relevant for an analysis of the credit risk arising from reinsurance held.

Changes in insurance liabilities and related items

- IG37 Paragraph 37(e) of the SB-FRS requires an insurer to disclose reconciliations of changes in insurance liabilities. It also requires disclosure of changes movements in reinsurance assets. An insurer need not disaggregate those ~~changes movements~~ into broad classes, but might do that if different forms of analysis are more relevant for different types of liability. The changes movements might include:

- (a) the carrying amount at the beginning and end of the period.
- (b) additional insurance liabilities arising during the period.
- (c) cash paid.
- (d) income and expense included in profit or loss.
- (e) liabilities acquired from, or transferred to, other insurers.
- (f) net exchange differences arising on the translation of the financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity.

- IG38 An insurer discloses the changes movements in insurance liabilities and reinsurance assets in all prior periods for which it reports full comparative information.

- IG39 Paragraph 37(e) of the SB-FRS also requires an insurer to disclose changes movements in deferred acquisition costs, if applicable. The reconciliation might disclose:

- (a) the carrying amount at the beginning and end of the period.
- (b) the amounts incurred during the period.
- (c) the amortisation for the period.
- (d) impairment losses recognised during the period.
- (e) other changes movements categorised by cause and type.

- IG40 An insurer may have recognised intangible assets related to insurance contracts acquired in a business combination or portfolio transfer. SB-FRS 38 *Intangible Assets* contains disclosure requirements for intangible assets, including a requirement to give a reconciliation of changes movements in intangible assets. The SB-FRS does not require additional disclosures about these assets.

Amount, timing and uncertainty of future cash flows **Nature and extent of risks arising from insurance contracts (paragraphs 38 and 39A of the SB-FRS)**

- IG41 The disclosures about the nature and extent of risks arising from insurance contracts ~~risk, timing and uncertainty of future cash flows~~ are based on two foundations:

- (a) There should be a balance between quantitative and qualitative disclosures, enabling users to understand the nature of risk exposures and their potential impact.
 - (b) Disclosures should be consistent with how management perceives its activities and risks, and the objectives, policies and processes ~~methods~~ that management uses to manage those risks. This approach is likely:
 - (i) to generate information that has more predictive value than information based on assumptions and methods that management does not use, for instance, in considering the insurer's ability to react to adverse situations.
 - (ii) to be more effective in adapting to the continuing change in risk measurement and management techniques and developments in the external environment over time.
- IG42 In developing disclosures to satisfy paragraphs 38 ~~and 39A~~ of the SB-FRS, an insurer ~~would decide~~ in the light of its circumstances how it would aggregate information to display the overall picture without combining information that has materially different characteristics, so that the information is useful. An insurer might group insurance contracts into broad classes ~~in ways that are~~ appropriate for the nature of the information to be disclosed, taking into account matters such as the risks covered, the characteristics of the contracts and the measurement basis applied. The broad classes may correspond to classes established for legal or regulatory purposes, but the SB-FRS does not require this.
- IG43 Under SB-FRS 14 *Segment Reporting*, the identification of reportable segments reflects differences in the risks and returns of an entity's products and services. SB-FRS 14 takes the position that the segments identified in an organisational and management structure and internal financial reporting system normally provide an appropriate segmentation for financial reporting. An insurer might adopt a similar approach to identify broad classes of insurance contracts for disclosure purposes, although it might be appropriate to disaggregate disclosures down to the next level. For example, if an insurer identifies life insurance as a reportable segment for SB-FRS 14, it might be appropriate to report separate information about, say, life insurance, annuities in the accumulation phase and annuities in the payout phase.
- IG44 ~~[Deleted]SB-FRS 32 *Financial Instruments: Disclosure and Presentation* (as revised in 2004) gives the following guidance on the level of detail to be disclosed about financial instruments, which is also appropriate for insurance contracts:~~
- ~~Determining the level of detail to be disclosed about particular financial instruments requires the exercise of judgement taking into account the relative significance of those instruments. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, when an entity is party to a large number of financial instruments with similar characteristics and no single contract is individually material, a summary by classes of instruments is appropriate. On the other hand, information about an individual instrument may be important when it is, for example, a material component of an entity's capital structure.~~
- IG45 In identifying broad classes for separate disclosure, an insurer might consider how best the need to indicate the level of uncertainty associated with the risks underwritten, to inform users whether outcomes are likely to be within a wider or a narrower range. For example, an insurer might disclose information about exposures where there are significant amounts of provisions for claims incurred but not reported (IBNR) or where outcomes and risks are unusually difficult to assess (e.g. asbestos).
- IG46 It may be useful to disclose sufficient information about the broad classes identified to permit a reconciliation to relevant line items on the balance sheet.

IG47 Information about the ~~extent and nature~~ and extent of risks arising from insurance contracts is more useful if it highlights any relationship between classes of insurance contracts (and those risks, the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by the relationship among the assets and liabilities might be apparent to users from information about the terms and conditions of insurance contracts (see paragraph IG49), but in some cases If the effect of any relationship would not be apparent from disclosures required by the SB-FRS, further disclosure might be useful.

Risk management objectives and policies for mitigating insurance risks arising from insurance contracts

IG48 Paragraph 39(a) of the SB-FRS requires an insurer to disclose its objectives, policies and processes for in-managing risks arising from insurance contracts and the methods used to manage those risks and its policies for mitigating those risks. Such discussion provides an valuable additional perspective that is independent of the specific complements information about contracts outstanding at a particular time. ~~For example, s~~Such disclosure might include information about: ~~An insurer might disclose, for example:~~

- ~~(a) its policies for accepting insurance risks, including selection and approval of risks to be insured, use of limits and use of options and avoiding undue concentrations of risk; the underwriting strategy to ensure that there are appropriate risk classification and premium levels.~~
- (a) the structure and organisation of the insurer's risk management function(s), including a discussion of independence and accountability.
- (b) the scope and nature of the insurer's risk reporting or measurement systems, such as internal risk measurement models, sensitivity analyses, scenario analysis, and stress testing, and how the insurer integrates them into its operating activities. Useful disclosure might include a summary description of the approach used, associated assumptions and parameters (including confidence intervals, computation frequencies and historical observation periods) and strengths and limitations of the approach.
- (c) the insurer's processes for accepting, measuring, monitoring and controlling insurance risks and the underwriting strategy to ensure that there are appropriate risk classification and premium levels.
- (d) the extent to which insurance risks are assessed and managed on an entity-wide basis.
- (e) the methods the insurer employs to limit or transfer insurance risk exposures and avoid undue concentrations of risk, such as retention limits, inclusion of options in contracts, and reinsurance.
- (f) asset and liability management (ALM) techniques.
- (g) the insurer's processes for managing, monitoring and controlling commitments received (or given) to accept (or contribute) additional debt or equity capital when specified events occur.

These disclosures might be provided both for individual types of risks insured and overall, and might include a combination of narrative descriptions and specific quantified data, as appropriate to the nature of the insurance contracts and their relative significance to the insurer.

- ~~(b) the methods it uses to assess and monitor insurance risk exposures both for individual types of risks insured and overall, such as internal risk measurement models, sensitivity analyses, scenario analyses, and stress testing, and how it~~

~~integrates them into its operating activities. Useful disclosure might include a summary description of the approach used, associated assumptions and parameters (including confidence intervals, computation frequencies and historical observation periods) and strengths and limitations of the approach.~~

- ~~(e) methods it employs to limit or transfer insurance risk exposures, such as retention limits and the use of reinsurance.~~
- ~~(d) the extent to which insurance risks are assessed and managed on an entity wide basis.~~
- ~~(e) asset and liability management (ALM) techniques.~~
- ~~(f) commitments received (or given) to issue (contribute) additional debt or equity capital when specified events occur.~~

Terms and conditions of insurance contracts

IG49 ~~[Deleted] Paragraph 39(b) of the SB-FRS requires an insurer to disclose those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts. To achieve this, an insurer might disclose the more significant of the following for each broad class of insurance liabilities, and reinsurance assets held:~~

- ~~(a) the nature of the risk covered, with a brief summary description of the class (such as annuities, pensions, other life insurance, motor, property and liability).~~
- ~~(b) concentrations of insurance risk, interest rate risk, credit risk or foreign exchange risk and the extent to which reinsurance or policyholder participation features mitigate those risks (see paragraphs IG55–IG58 for further discussion).~~
- ~~(c) a summary of significant guarantees, and of the levels at which guarantees of market prices or interest rates are likely to alter the insurer's cash flows materially.~~
- ~~(d) claims development information (see paragraphs IG59–IG61 for further discussion).~~
- ~~(e) the basis for determining investment returns credited to policyholders, such as whether the returns are fixed, based contractually on the return of specified assets or partly or wholly subject to the insurer's discretion.~~
- ~~(f) the general nature of participation features whereby policyholders share in the performance (and related risks) of individual contracts, pools of contracts or entities, including the general nature of any formula for the participation and the extent of any discretion held by the insurer.~~

IG50 ~~[Deleted] An insurer might also disclose the following information, which need not be disaggregated by broad classes:~~

- ~~(a) information about the estimated timing of the net cash inflows and outflows resulting from recognised insurance liabilities, and reinsurance assets. To comply with SB-FRS 1, the information would need to distinguish items falling due within one year from items falling due later. In addition, an insurer might disclose summary information about items falling due after one year (such as the estimated weighted average maturity of those items) or a more detailed analysis by time periods. The SB-FRS does not require an insurer to disclose the amounts of the estimated cash flows: an analysis, by estimated timing, of the amounts recognised in the balance sheet is sufficient.~~
- ~~(b) a summary narrative description of how the amounts in (a) could change if policyholders exercised lapse or surrender options in different ways.~~

- (e) ~~if applicable, the average discount rate or interest rate implicit in the measurement of insurance liabilities for each period described in (a).~~
- (d) ~~the sensitivity of profit or loss and equity to changes in key variables (see paragraphs IG52–IG54 for further discussion).~~
- (e) ~~the terms of any obligation or contingent obligation for the insurer to contribute to government or other guarantee funds (see also SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*).~~
- (f) ~~segregation requirements that are intended to protect policyholders by restricting the use of some of the insurer's assets.~~

Insurance risk

IG51 Paragraph 39(c) of the SB-FRS requires disclosures about insurance risk. Disclosures to satisfy this requirement might build on the following foundations:

- (a) Information about insurance risk ~~might be~~ is consistent with (though naturally less detailed than) the information provided internally to the entity's key management personnel (as defined in SB-FRS 24 *Related Party Disclosures*), board of directors and chief executive officer, so that users can assess the insurer's financial position, performance and cash flows 'through the eyes of management'.
- (b) Information about risk exposures might report exposures both gross and net of reinsurance (or other risk mitigating elements, such as catastrophe bonds issued or policyholder participation features), especially if the insurer expects a significant change in the nature or extent of its reinsurance programme or if an analysis before reinsurance is relevant for an analysis of the credit risk arising from reinsurance held.
- (c) In reporting quantitative information about insurance risk, an insurer might disclose the methods used, the strengths and limitations of those methods, the assumptions made, and the effect of reinsurance, policyholder participation and other mitigating elements.
- (d) Insurers might classify risk along more than one dimension. For example, life insurers might classify contracts by both the level of mortality risk and the level of investment risk. It may sometimes be convenient to display this information in a matrix format.
- (e) If an insurer's risk exposures at the reporting date are unrepresentative of its exposures during the period, it might be useful to disclose that fact.
- (f) The following disclosures required by paragraph 39 of the SB-FRS might also be relevant:
 - (i) the sensitivity of ~~reported~~ profit or loss and equity to changes in variables that have a material effect on them.
 - (ii) concentrations of insurance risk.
 - (iii) the development of prior year insurance liabilities.

IG51A Disclosures about insurance risk might include:

- (a) information about the nature of the risk covered, with a brief summary description of the class (such as annuities, pensions, other life insurance, motor, property and liability).

- (b) information about the general nature of participation features whereby policyholders share in the performance (and related risks) of individual contracts or pools of contracts or entities, including the general nature of any formula for the participation and the extent of any discretion held by the insurer.
- (c) information about the terms of any obligation or contingent obligation for the insurer to contribute to government or other guarantee funds (see also SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Sensitivity analysis to insurance risk

- IG52 Paragraph 39(c)(i) of the SB-FRS requires disclosure about the sensitivity to insurance risk, of profit or loss and equity to changes in variables that have a material effect on them. Sensitivity analysis might be qualitative, and preferably also quantitative. An insurer might, if feasible without undue cost or effort, explain the impact of correlations between key variables. To permit meaningful aggregation, the sensitivity disclosures focus on summary indicators, namely profit or loss and equity. Although sensitivity tests can provide useful information, such tests have limitations. An insurer might disclose the strengths and limitations of sensitivity analyses performed.
- IG52A Paragraph 39A permits two alternative approaches for this disclosure: quantitative disclosure of effects on profit or loss and equity (paragraph 39A(a)) or qualitative disclosure and disclosure about terms and conditions (paragraph 39A(b)). An insurer may provide quantitative disclosures for some insurance risks (in accordance with paragraph 39A(a)), and provide qualitative information about sensitivity and information about terms and conditions (in accordance with paragraph 39A(b)) for other insurance risks.
- IG53 Informative disclosure might avoid giving a misleading sensitivity analysis if there are significant non-linearities in sensitivities to variables that have a material effect. For example, if a change of 1 per cent in a variable has a negligible effect, but a change of 1.1 per cent has a material effect, it might be misleading to disclose the effect of a 1 per cent change without further explanation.
- IG53A If an insurer chooses to disclose a quantitative sensitivity analysis in accordance with paragraph 39A(a), and that sensitivity analysis does not reflect significant correlations between key variables, the insurer might explain the effect of those correlations.
- IG54 [Deleted]Sensitivity analysis helps to meet the requirement to disclose information about the amount, timing and uncertainty of cash flows. However, to permit meaningful aggregation, the required sensitivity disclosure does not refer directly to the cash flows but instead focuses on summary indicators, namely profit or loss and equity.
- IG54A If an insurer chooses to disclose qualitative information about sensitivity in accordance with paragraph 39A(b), it is required to disclose information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of cash flows. To achieve this, an insurer might disclose the qualitative information suggested by paragraphs IG51–IG58 on insurance risk and paragraphs IG62–IG65G on credit risk, liquidity risk and market risk. As stated in paragraph IG12, an insurer decides in the light of its circumstances how it aggregates information to display the overall picture without combining information with different characteristics. An insurer might conclude that qualitative information needs to be more disaggregated if it is not supplemented with quantitative information.

Concentrations of insurance risk

- IG55 Paragraph 39(c)(ii) of the SB-FRS refers to the need to disclose concentrations of insurance risk. Such concentration could arise from, for example:
- (a) a single insurance contract, or a small number of related contracts, for instance, when an insurance contract covers low-frequency, high-severity risks such as earthquakes.

- (b) single incidents that expose an insurer to risk under several different types of insurance contract. For example, a major terrorist incident could create exposure under life insurance contracts, property insurance contracts, business interruption and civil liability.
 - (c) exposure to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour.
 - (d) exposure to possible major changes in financial market conditions that could cause options held by policyholders to come into the money. For example, when interest rates decline significantly, interest rate and annuity guarantees may result in significant losses.
 - (e) significant litigation or legislative risks that could cause a large single loss, or have a pervasive effect on many contracts.
 - (f) correlations and interdependencies between different risks.
 - (g) significant non-linearities, such as stop-loss or excess of loss features, especially if a key variable is close to a level that triggers a material change in future cash flows.
 - (h) geographical and sectoral concentrations. The guidance in SB-FRS 14 *Segment Reporting* may help an insurer to identify these.
- IG56 Disclosure of concentrations of insurance risk might include a description of the shared characteristic that identifies each concentration and an indication of the possible exposure, both before and after reinsurance held, associated with all insurance liabilities sharing that characteristic.
- IG57 Disclosure about an insurer's historical performance on low-frequency, high-severity risks might be one way to help users to assess cash flow uncertainty associated with those risks. Consider an insurance contract that covers an earthquake that is expected to happen every 50 years, on average. If the insured event occurs during the current contract period, the insurer will report a large loss. If the insured event does not occur during the current period, the insurer will report a profit. Without adequate disclosure of the source of historical profits, it could be misleading for the insurer to report 49 years of reasonable profits, followed by one large loss; users may misinterpret the insurer's long-term ability to generate cash flows over the complete cycle of 50 years. Therefore, it might be useful to describe the extent of the exposure to risks of this kind and the estimated frequency of losses. If circumstances have not changed significantly, disclosure of the insurer's experience with this exposure may be one way to convey information about estimated frequencies.
- IG58 For regulatory or other reasons, some entities produce special purpose financial reports statements that show report-catastrophe or equalization reserves as liabilities. However, in financial statements prepared using SB-FRSs, those reserves are not liabilities but are a component of equity under SB-FRSs. Therefore they are subject to the disclosure requirements in SB-FRS 1 for equity. SB-FRS 1 requires an entity to disclose:
- (a) 'a description of the nature and purpose of each reserve within equity';
 - (b) information that enables users to understand the entity's objectives, policies and processes for managing capital; and
 - (c) the nature of any externally imposed capital requirements, how those requirements are incorporated into the management of capital and whether during the period it complied with any externally imposed capital requirements to which it is subject.

Claims development

- IG59 Paragraph 39(c)(iii) of the SB-FRS requires disclosure of claims development information (subject to transitional relief in paragraph 44). Informative disclosure might reconcile this information to amounts reported in the balance sheet. An insurer might disclose unusual claims expenses or developments separately, allowing users to identify the underlying trends in performance.
- IG60 As explained in paragraph 39(c)(iii) of the SB-FRS, disclosures about claims development are not required for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year. Therefore, these disclosures are not normally required for most life insurance contracts. Furthermore, claims development disclosure is not normally needed for annuity contracts because each periodic payment arises, in effect, from a separate claim about which there is no uncertainty.

IG61 IG Example 5 shows one possible format for presenting claims development information. Other possible formats might, for example, present information by accident year rather than underwriting year. Although the example illustrates a format that might be useful if insurance liabilities are discounted, the SB-FRS does not require discounting (paragraph 25(a) of the SB-FRS).

IG Example 5: Disclosure of claims development

This example illustrates a possible format for a claims development table for a general insurer. The top half of the table shows how the insurer's estimates of total claims for each underwriting year develop over time. For example, at the end of 20X1, the insurer estimated that it would pay claims of CU680 for insured events relating to insurance contracts underwritten in 20X1. By the end of 20X2, the insurer had revised the estimate of cumulative claims (both those paid and those still to be paid) to CU673.

The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. First, the cumulative payments are deducted to give the cumulative unpaid claims for each year on an undiscounted basis. Second, if the claims liabilities are discounted, the effect of discounting is deducted to give the carrying amount in the balance sheet.

<i>Underwriting year</i>	<i>20X1</i>	<i>20X2</i>	<i>20X3</i>	<i>20X4</i>	<i>20X5</i>	<i>Total</i>
	CU	CU	CU	CU	CU	CU
Estimate of cumulative claims:						
At end of underwriting year	680	790	823	920	968	
One year later	673	785	840	903		
Two years later	692	776	845			
Three years later	697	771				
Four years later	702					
Estimate of cumulative claims	702	771	845	903	968	
Cumulative payments	<u>(702)</u>	<u>(689)</u>	<u>(570)</u>	<u>(350)</u>	<u>(217)</u>	1713
	-	82	275	553	751	
Effect of discounting	<u>-</u>	<u>(14)</u>	<u>(68)</u>	<u>(175)</u>	<u>(285)</u>	<u>(547)</u>
Present value recognised in the balance sheet	<u>-</u>	<u>68</u>	<u>207</u>	<u>378</u>	<u>466</u>	<u>1,166</u>

Interest rate risk and credit risk-Credit risk, liquidity risk and market risk

IG62 ~~Paragraph 39(d) of the SB-FRS requires an insurer to disclose information about interest rate risk and credit risk, liquidity risk and market risk that paragraphs 31–42 of SB-FRS 107 would require if insurance contracts were within its scope. Such disclosure includes:– The information required is the same as that required by SB-FRS 32 (to the extent not already covered by the disclosures discussed above):~~

- ~~(a) summary quantitative data about the insurer’s exposure to those risks based on information provided internally to its key management personnel (as defined in SB-FRS 24); and~~
- ~~(b) to the extent not already covered by the disclosures discussed above, the information described in paragraphs 36–42 of SB-FRS 107.~~

~~The disclosures about credit risk, liquidity risk and market risk may be either provided in the financial statements or incorporated by cross-reference to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.~~

IG63 ~~[Deleted]If an insurer considers that lapse behaviour is likely to be sensitive to interest rates, the insurer might disclose that fact and state whether the disclosures about interest rate risk reflect that interdependence.~~

IG64 Informative disclosure about credit risk, liquidity risk and market risk includes:

- ~~(a) information about the extent to which features such as policyholder participation features mitigate or compound those risks interest rate risk.~~
- ~~(b) a summary of significant guarantees, and of the levels at which guarantees of market prices or interest rates are likely to alter the insurer’s cash flows.~~
- ~~(c) the basis for determining investment returns credited to policyholders, such as whether the returns are fixed, based contractually on the return of specified assets or partly or wholly subject to the insurer’s discretion.~~

Credit risk

IG64A Paragraphs 36–38 of SB-FRS 107 require disclosure about credit risk. Credit risk is defined as ‘the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss’. Thus, for an insurance contract, credit risk includes the risk that an insurer incurs a financial loss because a reinsurer defaults on its obligations under the reinsurance contract. Furthermore, disputes with the reinsurer could lead to an impairment of the cedant’s reinsurance asset. The risk of such disputes may have an effect similar to credit risk. Thus, similar disclosure might be relevant. Balances due from agents or brokers may also be subject to credit risk.

IG64B A financial guarantee contract reimburses a loss incurred by the holder because a specified debtor fails to make payment when due. The holder is exposed to credit risk, and SB-FRS 107 requires the holder to provide disclosures about that credit risk. However, from the perspective of the issuer, the risk assumed by the issuer is insurance risk rather than credit risk.

IG65 ~~[Deleted]For an insurer, disclosure about credit risk might be particularly important for reinsurance contracts held and for credit risk assumed under credit insurance contracts and financial guarantees. Balances due from agents or brokers may also be subject to credit risk.~~

IG65A The issuer of a financial guarantee contract provides disclosures complying with SB-FRS 107 if it applies SB-FRS 39 in recognising and measuring the contract. If the issuer elects, when permitted by paragraph 4(d) of SB-FRS 104, to apply SB-FRS 104 in recognising and

measuring the contract, it provides disclosures complying with SB-FRS 104. The main implications are as follows:

- (a) SB-FRS 104 requires disclosure about actual claims compared with previous estimates (claims development), but does not require disclosure of the fair value of the contract.
- (b) SB-FRS 107 requires disclosure of the fair value of the contract, but does not require disclosure of claims development.

Liquidity risk

IG65B Paragraph 39(a) of SB-FRS 107 requires disclosure of a maturity analysis for financial liabilities that shows the remaining contractual maturities. For insurance contracts, the contractual maturity refers to the estimated date when contractually required cash flows will occur. This depends on factors such as when the insured event occurs and the possibility of lapse. However, SB-FRS 104 permits various existing accounting practices for insurance contracts to continue. As a result, an insurer may not need to make detailed estimates of cash flows to determine the amounts it recognises in the balance sheet. To avoid requiring detailed cash flow estimates that are not required for measurement purposes, paragraph 39(d)(i) of SB-FRS 104 states that an insurer need not provide the maturity analysis required by paragraph 39(a) of SB-FRS 107 (i.e. that shows the remaining contractual maturities of insurance contracts) if it discloses an analysis, by estimated timing, of the amounts recognised in the balance sheet.

IG65C An insurer might also disclose a summary narrative description of how the maturity analysis (or analysis by estimated timing) flows could change if policyholders exercised lapse or surrender options in different ways. If an insurer considers that lapse behaviour is likely to be sensitive to interest rates, the insurer might disclose that fact and state whether the disclosures about market risk reflect that interdependence.

Market risk

IG65D Paragraph 40(a) of SB-FRS 107 requires a sensitivity analysis for each type of market risk at the reporting date, showing the effect of reasonably possible changes in the relevant risk variable on profit or loss or equity. If no reasonably possible change in the relevant risk variable would affect profit or loss or equity, an entity discloses that fact to comply with paragraph 40(a) of SB-FRS 107. A reasonably possible change in the relevant risk variable might not affect profit or loss in the following examples:

- (a) if a non-life insurance liability is not discounted, changes in market interest rates would not affect profit or loss.
- (b) some insurers may use valuation factors that blend together the effect of various market and non-market assumptions that do not change unless the insurer assesses that its recognised insurance liability is not adequate. In some cases a reasonably possible change in the relevant risk variable would not affect the adequacy of the recognised insurance liability.

IG65E In some accounting models, a regulator specifies discount rates or other assumptions about market risk variables that the insurer uses in measuring its insurance liabilities and the regulator does not amend those assumptions to reflect current market conditions at all times. In such cases, the insurer might comply with paragraph 40(a) of SB-FRS 107 by disclosing:

- (a) the effect on profit or loss or equity of a reasonably possible change in the assumption set by the regulator.
- (b) the fact that the assumption set by the regulator would not necessarily change at the same time, by the same amount, or in the same direction, as changes in market prices, or market rates, would imply.

IG65F An insurer might be able to take action to reduce the effect of changes in market conditions. For example, an insurer may have discretion to change surrender values or maturity benefits, or to vary the amount or timing of policyholder benefits arising from discretionary participation features. Paragraph 40(a) of SB-FRS 107 does not require entities to consider the potential effect of future management actions that may offset the effect of the disclosed changes in the relevant risk variable. However, paragraph 40(b) of SB-FRS 107 requires an entity to disclose the methods and assumptions used to prepare the sensitivity analysis. An insurer might conclude that, to comply with this requirement, it needs to disclose the extent of available management actions and their effect on the sensitivity analysis.

IG65G Some insurers manage sensitivity to market conditions using a method that differs from the method described by paragraph 40(a) of SB-FRS 107. For example, some insurers use an analysis of the sensitivity of embedded value to changes in market risk. Paragraph 39(d)(ii) of SB-FRS 104 permits an insurer to use that sensitivity analysis to meet the requirement in paragraph 40(a) of SB-FRS 107. SB-FRS 104 and SB-FRS 107 require an insurer to provide sensitivity analyses for all classes of financial instruments and insurance contracts, but an insurer might use different approaches for different classes. SB-FRS 104 and SB-FRS 107 specify the following approaches:

- (a) the sensitivity analysis described in paragraph 40(a) of SB-FRS 107 for financial instruments or insurance contracts;
- (b) the method described in paragraph 41 of SB-FRS 107 for financial instruments or insurance contracts; or
- (c) the method permitted by paragraph 39(d)(ii) of SB-FRS 104 for insurance contracts.

Exposures to interest rate risk or market risk under embedded derivatives

IG66 Paragraph 39(e) of the SB-FRS requires an insurer to disclose information about exposures to ~~interest rate risk or~~ market risk under embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivative at fair value (for example, guaranteed annuity options and guaranteed minimum death benefits).

IG67 An example of a contract containing a guaranteed annuity option is one in which the policyholder pays a fixed monthly premium for thirty years. At maturity, the policyholder can elect to take either (a) a lump sum equal to the accumulated investment value or (b) a lifetime annuity at a rate guaranteed at inception (i.e. when the contract started). For policyholders electing to receive the annuity, the insurer could suffer a significant loss if interest rates decline substantially or if the policyholder lives much longer than the average. The insurer is exposed to both ~~interest rate risk~~ market risk and significant insurance risk (mortality risk) and a transfer of insurance risk occurs at inception, because the insurer fixed the price for mortality risk at that date. Therefore, the contract is an insurance contract from inception. Moreover, the embedded guaranteed annuity option itself meets the definition of an insurance contract, and so separation is not required.

IG68 An example of a contract containing minimum guaranteed death benefits is one in which the policyholder pays a monthly premium for 30 years. Most of the premiums are invested in a mutual fund. The rest is used to buy life cover and to cover expenses. On maturity or surrender, the insurer pays the value of the mutual fund units at that date. On death before final maturity, the insurer pays the greater of (a) the current unit value and (b) a fixed amount. This contract could be viewed as a hybrid contract comprising (a) a mutual fund investment and (b) an embedded life insurance contract that pays a death benefit equal to the fixed amount less the current unit value (but zero if the current unit value is more than the fixed amount).

IG69 Both these embedded derivatives meet the definition of an insurance contract if the insurance risk is significant. However, in both cases ~~interest rate risk or~~ market risk may be much more significant than the mortality risk. If interest rates or equity markets fall substantially, these

guarantees would be well in the money. Given the long-term nature of the guarantees and the size of the exposures, an insurer might face extremely large losses. Therefore, an insurer might place particular emphasis on disclosures about such exposures.

IG70 Useful disclosures about such exposures might include:

- (a) the sensitivity analysis discussed above.
- (b) information about the levels ~~when~~ where these exposures start to have a material effect on the insurer's cash flows (paragraph IG64(b)49(e)).
- (c) the fair value of the embedded derivative, although neither the SB-FRS nor ~~SB-FRS 32~~ SB-FRS 107 requires disclosure of that fair value.

Key performance indicators

IG71 Some insurers present disclosures about what they regard as key performance indicators, such as lapse and renewal rates, total sum insured, average cost per claim, average number of claims per contract, new business volumes, claims ratio, expense ratio and combined ratio. The SB-FRS does not require such disclosures. However, such disclosures might be a useful way for an insurer to explain its financial performance during the period and to give an insight into the risks arising from insurance contracts ~~amount, timing and uncertainty of its future cash flows~~.