

# IFRS AT A GLANCE

## IFRS 4 *Insurance Contracts*





# IFRS 4 *Insurance Contracts*

Effective Date  
Periods beginning on or after 1 January 2005

## SCOPE

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 IAS 39 *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 profit or loss.

### AREAS OF ADDITIONAL GUIDANCE

Additional guidance is provided in 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 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 insurance 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 user of its 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.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit <http://www.bdointernational.com/Services/Audit/Pages/default.aspx> where you can find full lists of regional and country contacts.

#### Europe

Caroline Allouët	France	caroline.allouet@bdo.fr
Jens Freiberg	Germany	jens.freiberg@bdo.de
Teresa Morahan	Ireland	tmorahan@bdo.ie
Ehud Greenberg	Israel	ehudg@bdo.co.il
Ruud Vergoossen	Netherlands	ruud.vergoossen@bdo.nl
Reidar Jensen	Norway	reidar.jensen@bdo.no
María Sukonkina	Russia	m.sukonkina@bdo.ru
René Krügel	Switzerland	rene.kruegel@bdo.ch
Brian Creighton	United Kingdom	brian.creighton@bdo.co.uk

#### Asia Pacific

Wayne Basford	Australia	wayne.basford@bdo.com.au
Zheng Xian Hong	China	zheng.xianhong@bdo.com.cn
Fanny Hsiang	Hong Kong	fannyhsiang@bdo.com.hk
Khoon Yeow Tan	Malaysia	tanky@bdo.my

#### Latin America

Marcelo Canetti	Argentina	mcanetti@bdoargentina.com
Luis Pierrend	Peru	lpierrend@bdo.com.pe
Ernesto Bartesaghi	Uruguay	ebartesaghi@bdo.com.uy

#### North America & Caribbean

Armand Capisciolto	Canada	acapisciolto@bdo.ca
Wendy Hambleton	USA	whambleton@bdo.com

#### Middle East

Arshad Gadit	Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	Lebanon	agholam@bdo-lb.com

#### Sub Saharan Africa

Nigel Griffith	South Africa	ngriffith@bdo.co.za
----------------	--------------	---------------------

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2015 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

[www.bdointernational.com](http://www.bdointernational.com)