



IFRS AT A GLANCE
IFRS 4 *Insurance Contracts*



IFRS 4 Insurance Contracts

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.
- ▶ Does not address the accounting for financial assets held by insurers, but temporary exemption from the requirement to apply IFRS 9 is available until 1 January 2023 (R); and
- ▶ Overlay approach permitted for designated financial assets.

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.

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.

Contact

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 www.bdo.global where you can find full lists of regional and country contacts.



EUROPE

Anne Catherine Farlay		France	annecatherine.farlay@bdo.fr
Jens Freiberg		Germany	jens.freiberg@bdo.de
Ehud Greenberg		Israel	ehudg@bdo.co.il
Stefano Bianchi		Italy	stefano.bianchi@bdo.it
Roald Beumer		Netherlands	roald.beumer@bdo.nl
Reidar Jensen		Norway	reidar.jensen@bdo.no
David Cabaleiro		Spain	david.cabaleiro@bdo.es
René Füglistner		Switzerland	rene.fueglistner@bdo.ch
Moses Serfaty		United Kingdom	moses.serfaty@bdo.co.uk




SUB SAHARAN AFRICA



Theunis Schoeman		South Africa	tschoeman@bdo.co.za
------------------	---	--------------	--

NORTH AMERICA &







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


LATIN AMERICA

Marcello Canetti		Argentina	mcanetti@bdoargentina.com
Victor Ramirez		Colombia	vramirez@bdo.com.co
Ernesto Bartesaghi		Uruguay	ebartesaghi@bdo.com.uy

Ayez Qureshi		Bahrain	Ayez.qureshi@bdo.bh
Antoine Gholam		Lebanon	agholam@bdo-lb.com

ASIA PACIFIC

Aletta Boshoff		Australia	aletta.boshoff@bdo.com.au
Hu Jian Fei		China	hu.jianfei@bdo.com.cn
Fanny Hsiang		Hong Kong	fannyhsiang@bdo.com.hk
Pradeep Suresh		India	pradeepsuresh@bdo.in
Khoon Yeow Tan		Malaysia	tanky@bdo.my
Ng Kian Hui		Singapore	kianhui@bdo.com.sg



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 BV, 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.

The BDO network (referred to as the 'BDO network' or the 'Network') is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (hereafter 'BDO member firms'). BDO International Limited is a UK company limited by guarantee. It is the governing entity of the BDO network.

Service provision within the BDO network in connection with corporate reporting and IFRS Accounting Standards (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 and IFRS Sustainability Disclosure Standards as issued by the International Sustainability 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 BV, a limited liability company incorporated in Belgium.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV, 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 BV, 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.

© 2022 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdo.global