

Visual guide

The forthcoming insurance contracts standard

Facts you need to know

May 2016



Comprehensive model for all insurance and reinsurance contracts, based on **fulfilment objective**, using **current assumptions** and **discount rates**

Measurement

Initial

Four building blocks

- Estimate of future cash flows
- Discounting to reflect time value of money
- Risk adjustment
- Contractual service margin (CSM)

Premium allocation approach

permits simplifications for certain contracts

Variable fee approach applied to direct participating contracts

Subsequent

Updates to assumptions of **future cash flows, discount rates** and **risk margins**

CSM adjusted for changes in **cash flows** and **risk margins** related to future coverage and services



Transition



Full retrospective application is required – however, **practical expedients** and a **fair value approach** are available for determining CSM and discount rates

Limited ability to redesignate some financial assets on initial application
Effective date will be **at least three years** after the final standard is issued

Presentation and disclosures



Revenue presentation based on **provision of service pattern**

Investment components excluded from insurance revenue

Entities can choose to present effects of **discount rate and market variable changes in OCI or P&L** to reduce volatility

We invite you to contact our specialists or your usual KPMG contact to discuss how these proposals may impact you.