



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 43 [2013]

Revenue Recognition on Upfront Payment Paid to the Banks on Bancassurance Contract

The issue:

FRSIC has previously received a request to provide clarification on the appropriate revenue recognition of upfront fee made to the bank on bancassurance contract.

Current accounting practice as observed by the Submitter:

The submitter claimed that there are divergence in practice in the revenue recognition among the banks.

Reasons for the FRSIC to address the issue:

Bancassurance refers to collaboration between banks and insurers to distribute insurance products to bank customers, whereby the insurance companies use the bank sales channel to sell insurance products.

Typically there are 3 types of bancassurance arrangements in the market whereby:

1. the issuer has the exclusive right to the bank's network where the upfront fee is usually remunerated to the bank;
2. the issuer has the exclusive right to the bank's network with the performance condition attached to the upfront fee; and
3. the issuer has no exclusive right to the bank's network and also no upfront fee.

FRSIC is required to clarify at which point the revenue from the upfront payment paid to the banks on bancassurance contract should be recognised in the financial statements.

Submitter's proposal or recommendation to address the issue:

FRSIC Consensus will provide guidance on the above matter.

Submitted on:

20 June 2013 (during FRSIC 27th meeting)

Corresponding Guidance:

ISSUE WAS REJECTED FROM FURTHER DELIBERATION.

FRSIC has decided to discontinue deliberation of the issue due to the existence of significant variations in the market with respect to the terms and conditions of bancassurance contracts between one bank to another. For instance, the degree of bank's involvement in insurance sales effort may range from relatively low involvement to a high level of involvement. In some cases, it may also include provision of after-sales service by the bank, although this is more often undertaken by the insurer.

Consequently, FRSIC was of the view that the scope is too broad for a FRSIC Consensus to be issued. An entity shall assess the terms and conditions, in which among others the level of bank's involvement and commission structure in individual bancassurance contract and form its own judgement to determine the timing where the revenue shall be recognised.