



**International  
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This document is provided as a convenience to observers at Insurance Working Group meetings, to assist them in following the discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the Insurance Working Group Meeting. Paragraph numbers correspond to paragraph numbers used in the Insurance Working group paper. However, because these notes are less detailed, some paragraph numbers are not used.

## **INFORMATION FOR OBSERVERS**

**IASB Meeting:**           **Insurance Working Group, April 2008**  
**Paper:**                   **Performance reporting (Agenda paper 8)**

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### **Purpose of this paper**

1. Chapter 7 of the discussion paper discussed the presentation of the performance statement. Because the chapter did not make specific proposals, most respondents provided few, if any, comments on this chapter. Furthermore, many respondents indicated that they found it difficult to comment on measurement without being given a clearer picture of how the performance reporting would work.
2. The aim of this paper is to seek further input on performance reporting, using the examples on performance reporting from the discussion paper as a starting point. Extracts from the performance reporting examples are attached to this paper in Appendices A-F.
3. Responses from comment letters on performance reporting generally covered the following items:
  - (a) Treatment of premium (paragraphs 4 and 5)
  - (b) Disaggregation (paragraphs 6 and 7)
  - (c) Movements in insurance liabilities (paragraphs 8 and 9)

### **Treatment of premiums**

4. The discussion paper discussed whether premiums should be treated as premiums, as deposits, or as a mixture of revenue and deposits, but did not put forward specific proposals on this topic. Most respondents viewed all premiums as revenue, especially for non-life contracts.
5. However, some saw merit in a margin presentation, particularly for life contracts. Others proposed retaining a revenue presentation in the performance statement (premiums shown as revenue, claims shown as an expense), supplementing this with a margin analysis in the notes, especially for life contracts. In this context, some saw life contracts as closer to financial instruments and non-life contracts as closer to service contracts.

### **Disaggregation**

6. The discussion paper considered in general terms how changes in insurance liabilities might be disaggregated in the performance statement, but made no specific proposals. Most respondents did not provide specific suggestions, though several emphasised that any requirements should use principles rather than detailed rules.
7. Some suggested that the disaggregation should be designed to be coherent with the three building blocks, or to reflect differences in the quality of inputs (for example, by distinguishing the effects of observable inputs from the effects of unobservable inputs).

### **Movements in insurance liabilities**

8. Most agreed that all changes in insurance liabilities should be reported in profit or loss.
9. Some proposed permitting or requiring insurers to use other comprehensive income (OCI), but did generally not discuss whether the gains and losses would be recycled from OCI when the liability is derecognised. Some also expressed concerns about volatility.

### **Examples from the discussion paper**

10. Appendices A-F to this paper contain extracts of the performance statement formats used in examples 10-15 of appendix G of the discussion paper. To permit easier comparison, all six examples use the same fact pattern. Thus, all six examples show the same profit, but the individual line items differ.

11. The examples illustrate four formats that present premiums as revenue (examples 10–13) and two formats that present premiums as deposits (examples 14 and 15).
12. Examples 10 and 11 show traditional presentations for non-life and life insurance. Example 10 treats premiums initially as a liability (unearned premium). When the premiums are earned, the insurer recognises them as revenue. In example 11, an insurer recognises the premiums as revenue immediately; at the same time, an addition to the liability is recognised as an expense. In all other respects, examples 10 and 11 are identical.
13. Examples 12 and 13 are largely the same as examples 10 and 11, but present acquisition costs in a way that is more consistent with the preliminary views expressed in chapter 4 of the discussion paper. In examples 10 and 11, the insurer treats acquisition costs as an asset and amortises that asset over the term of the contract. However, in examples 12 and 13, the initial measurement of the insurance liability equals the premium received, less the part of the premium that pays for the acquisition costs, and the insurer recognises acquisition costs as an expense when it incurs them (typically, at inception).
14. Examples 14 and 15 illustrate two formats that present premiums as deposits. In a fee presentation (example 14), an insurer recognises revenue when it charges explicit amounts against a policyholder account balance for bearing risk or providing services. In a margin presentation (example 15), an insurer recognises revenue when it is released from risk (and, if applicable, renders other services). The fee presentation reports gross explicit or implicit charges to the policyholder account and gross policyholder benefits and claims. In contrast, the margin presentation reports the net margins generated by the contract.

### **Questions for participants**

15. **Should an insurer present premiums as revenue or as deposits? Why?**
16. **Which items of income and expense should an insurer present separately on the face of its income statement? Why?**
17. **Should the income statement include all income and expense arising from changes in insurance liabilities? Why or why not?**

## Appendix A

### Extract from the discussion paper

#### Example 10 Non-life insurance, traditional presentation

Paragraphs 301–308 discuss six presentations. Examples 10–15 illustrate them. To focus on the style of presentation rather than recognition and measurement, the examples are simple and all use the same fact pattern, as follows:

- Premium CU1,000, covering insured events between 1 January and 31 December.
- Expected claims (including claims handling costs) CU700. CU350 is paid on 30 June and CU350 on 31 December.
- Acquisition costs CU100, incurred on 1 January.
- Other expenses associated with the administration of the contracts CU80, incurred evenly through the period.
- Expected investment return 8 per cent and risk-free rate used to discount the liability cash flows 5 per cent.
- The insurer estimates that there is no material profit or loss at inception (1 January). On 30 June, the insurer estimates that the appropriate margin is CU69, which results in a liability measurement of CU450 (coincidentally equal to a conventional unearned premium of CU500 less conventional deferred acquisition costs of CU50).
- No differences between actual outcomes and previous estimates.
- This illustration focuses on presenting premiums for a contract that does not include an explicit deposit component.

Example 10 illustrates a traditional presentation for non-life insurance.

<b>Income statement</b>	<i>Inception 1 Jan</i>	<i>2 Jan to 30 June</i>	<i>1 July to 31 Dec</i>
Premiums written	1,000		
Change in unearned premium	(1,000)	500	500
Premiums earned	0	500	500
Investment income	0	36	22
Policyholder benefits (claims)		350	350
Expenses		40	40
Amortisation of deferred acquisition costs		50	50
Total expenses	0	440	440
Profit	0	96	82
<b>Balance sheet</b>	<i>1 Jan</i>	<i>30 June</i>	<i>31 Dec</i>
Cash	900	546	178
Deferred acquisition costs	100	50	-
Insurance liabilities	(1,000)	(500)	-
Equity	0	96	178
Claims ratio	n/a	70%	70%
Expense ratio (without acquisition costs)	n/a	8%	8%
Combined ratio (without acquisition costs)	n/a	78%	78%
Expense ratio (with acquisition costs)	n/a	18%	18%
Combined ratio (with acquisition costs)	n/a	88%	88%

## Appendix B

### Extract from the discussion paper

#### Example 11 Traditional life insurance presentation

Example 11 uses the same fact pattern as example 10.

	<i>Inception 1 Jan</i>	<i>2 Jan to 30 June</i>	<i>1 July to 31 Dec</i>
Premium revenue	1,000		
Investment income		36	22
Total income	<u>1,000</u>	<u>36</u>	<u>22</u>
Policyholder benefits		350	350
Change in insurance liability	1,000	(500)	(500)
Expenses		40	40
Amortisation of deferred acquisition costs		50	50
Total expenses	<u>1,000</u>	<u>(60)</u>	<u>(60)</u>
Profit	<u>0</u>	<u>96</u>	<u>82</u>
<b>Balance sheet</b>	<i>1 Jan</i>	<i>30 June</i>	<i>31 Dec</i>
Cash	900	546	178
Deferred acquisition costs	100	50	-
Insurance liabilities	(1,000)	(500)	-
Equity	<u>0</u>	<u>96</u>	<u>178</u>

Comments:

1. The line 'change in insurance liability' shows the result of a computation, not the effect of a real economic event.
2. This presentation does not require the insurer to analyse the reasons for changes in the liability. Such analysis may be complex for traditional products that bundle together many elements.

## Appendix C

### Extract from the discussion paper

#### **Example 12 Non-life insurance, modified presentation**

Example 12 uses the same fact pattern as example 10. The presentation is changed to recognise acquisition costs as an expense when incurred. In addition, the measurement of the insurance liability does not include the part of the premium that recovers the acquisition costs.

<b>Income statement</b>	<i>Inception 1 Jan</i>	<i>2 Jan to 30 June</i>	<i>1 July to 31 Dec</i>
Premiums written	1,000		
Change in unearned premium	(900)	450	450
Premiums earned	<u>100</u>	<u>450</u>	<u>450</u>
Investment income	<u>0</u>	<u>36</u>	<u>22</u>
Claims		350	350
Expenses		40	40
Acquisition costs	100	-	-
Total expenses	<u>100</u>	<u>390</u>	<u>390</u>
Profit	<u>0</u>	<u>96</u>	<u>82</u>
<b>Balance sheet</b>	<i>1 Jan</i>	<i>30 June</i>	<i>31 Dec</i>
Cash	900	546	178
Insurance liabilities	(900)	(450)	-
Equity	<u>0</u>	<u>96</u>	<u>178</u>
Claims ratio	0%	78%	78%
Expense ratio (without acquisition costs)	0%	9%	9%
Combined ratio (without acquisition costs)	0%	87%	87%
Expense ratio (with acquisition costs)	100%	9%	9%
Combined ratio (with acquisition costs)	100%	87%	87%

Comment:

The ratios differ from those in example 10 because premium of CU100 is recognised as revenue on 1 January (inception), rather than over the life of the contract.

## Appendix D

### Extract from the discussion paper

#### **Example 13 Life insurance presentation, modified**

Example 13 uses the same fact pattern as example 10. The presentation is changed to recognise acquisition costs as an expense when incurred. In addition, the measurement of the insurance liability does not include the part of the premium received that recovers the acquisition costs.

<b>Income statement</b>	<i>Inception 1 Jan</i>	<i>2 Jan to 30 June</i>	<i>1 July to 31 Dec</i>
Premium revenue	1,000		
Investment income		36	22
Total income	<u>1,000</u>	<u>36</u>	<u>22</u>
Claims		350	350
Change in insurance liability	900	(450)	(450)
Expenses		40	40
Acquisition costs	100		
Total expenses	<u>1,000</u>	<u>(60)</u>	<u>(60)</u>
Profit	<u>0</u>	<u>96</u>	<u>82</u>
<b>Balance sheet</b>	<i>1 Jan</i>	<i>30 June</i>	<i>31 Dec</i>
Cash	900	546	178
Insurance liabilities	(900)	(450)	-
Equity	<u>0</u>	<u>96</u>	<u>178</u>

## Appendix E

### Extract from the discussion paper

#### Example 14 Fee presentation

Example 14 uses the same fact pattern as example 10.

<b>Income statement</b>	<i>Inception 1 Jan</i>	<i>2 Jan to 30 June</i>	<i>1 July to 31 Dec</i>
Charges to policyholder account	-	473	461
Policyholder benefits	-	(350)	(350)
Expenses	-	(40)	(40)
Insurance margin	-	83	71
Gross gain at inception	100		
Acquisition costs	(100)		
Net gain at inception	-	-	-
Investment income		36	22
Interest on insurance liability		(23)	(11)
Net interest and investment income	-	13	11
Profit	-	96	178
<b>Balance sheet</b>	<i>1 Jan</i>	<i>30 June</i>	<i>31 Dec</i>
Cash	900	546	178
Insurance liabilities	(900)	(450)	-
Equity	0	96	178

Comments:

- 1 This format presents all premiums as deposits (except the part needed to pay for acquisition costs), and presents as revenue the explicit or implicit charges made to policyholder accounts.
- 2 In US GAAP, a somewhat similar presentation is used for universal life contracts. This format is possible for these contracts because the design of the contract unbundles the different contract elements. This approach may be more challenging if charges to policyholders are implicitly bundled into a premium, rather than identified explicitly.
- 3 In this illustration, there is no explicit policyholder account and, hence, no explicit charge. The amounts shown as policyholder charges are implicit and are computed as the expected value of policyholder benefits and expenses, plus the risk margin (and, if applicable, service margin) released in the period. (The margin presentation in example 15 shows as revenue only the release of those margins.)



## Appendix F

### Extract from the discussion paper

#### Example 15 Margin presentation

Example 15 uses the same fact pattern as example 10.

	<i>Inception 1 Jan</i>	<i>2 Jan to 30 June</i>	<i>1 July to 31 Dec</i>
Insurance margin	-	83	71
Gross gain at inception	100		
Acquisition costs	(100)		
Net gain at inception	<u>0</u>	<u>0</u>	<u>0</u>
Investment income		36	22
Interest on insurance liability		(23)	(11)
Net interest and investment income	<u>0</u>	<u>14</u>	<u>11</u>
Profit	<u>0</u>	<u>96</u>	<u>82</u>
<b>Balance sheet</b>	<i>1 Jan</i>	<i>30 June</i>	<i>31 Dec</i>
Cash	900	546	178
Insurance liabilities	(900)	(450)	-
Equity	<u>0</u>	<u>96</u>	<u>178</u>

Comments:

- 1 This format is similar to the analysis of changes in embedded value provided by many larger life insurers in the UK, Continental Europe, Australia, New Zealand, Canada and South Africa, and to the 'sources of earnings analysis' provided by some Canadian life insurers.
- 2 This format treats all premiums as deposits, and all claims expense, claims handling expense and other contract-related expense as repayments of deposits.
- 3 'Release of margins' refers to the difference between the margin at the start of the period and the margin at the end of the period. It reports the estimated margin that market participants would have required at the start of the period for bearing risk during the period.