Project **Insurance Contracts**

Topic **Candidate measurement approaches – tabular comparison**

Purpose of this paper

1. This paper provides a tabular overview of differences and similarities between the candidate measurement approaches for insurance contracts. The table includes the approaches considered for selection by the Board in this meeting; see agenda papers 17A.

2. The table reflects the candidates as currently defined by staff. The description of the candidates is tentative; as a result of discussions at future meetings the candidates may change.

3. The table tries to capture the main features of a measurement approach, but is not intended to show every detail.

CANDIDATE MEASUREMENT APPROACHES (TENTATIVE)

	Measurement approach based on updated IAS 37 model	**Current fulfilment value**
Definition	The amount the entity would rationally pay at the end of the reporting period to be relieved of the present obligation. Plus a "residual margin", based on the day one difference. The amount the entity would rationally pay is the lowest of: a) the value to the entity of not having to fulfil the liability (an entity-specific measure); b) the price that the market would demand to assume the liability; and c) the price that the counterparty would demand to cancel the liability, if cancellation is possible.	The expected present value of the cost of fulfilling the obligation to the policy holder over time. Plus a "composite margin", based on the day one difference.
Scope	All insurance liabilities.	All insurance liabilities.

	Measurement approach based on updated IAS 37 model	**Current fulfilment value**
Building blocks for the measurement approach	- current estimate of the expected (ie probability weighted) present value of future cash flows - time value of money - an explicit margin If the insurer has objective evidence that it can cancel the obligation or transfer it to a third party at a lower amount, it measures the liability at the amount that the insurer would have to pay the counterparty to cancel the obligation or a third party to transfer the obligation.	- current estimate of the expected (ie probability weighted) present value of future cash flows - time value of money - an explicit margin

	Measurement approach based on updated IAS 37 model	**Current fulfilment value**
Inputs for estimates of cash flows		
Inputs for which observable market information is available (financial market variables)	Consistent with observed market prices	Consistent with observed market prices.
Other inputs	The entity's estimate of the cash flows it would incur in fulfilling the liability. In some cases the amount required by a subcontractor for other services [often to be estimated by the amount the insurer requires for other services].*	The entity's estimate of the cash flows it would incur in fulfilling the liability.
Characteristics of cash flows		
Cash flows that arise from the characteristics of the portfolio (portfolio-specific)	Included.	Included.

* In September 2009, the IAS 37 staff will continue its discussion with the Board on guidance for estimating future cash flows for those obligations that the entity fulfils by undertaking a service ('service obligations'). As a result of that debate, this particular feature of the candidate based on updated IAS 37 model may change.

	Measurement approach based on updated IAS 37 model	**Current fulfilment value**
Cash flows that arise from the characteristics of the entity (entity-specific)	Included.	Included.
Subsequent measurement of cash flows	Current estimates for all variables.	Current estimates for all variables.
Changes in estimates of cash flows*	Effect included in profit or loss.	Effect included in profit or loss.
Time value of money	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.
Components of the margin	- risk margin - service margin** - residual margin (calibrated to premium)	- composite margin
Risk margin	The value to the entity of not having to bear the risk in the expected cash flows.	No explicit risk margin. Implicit in the "composite margin".

* The Board has not discussed yet a) whether to use other comprehensive income for some or all changes in estimates and b) whether all, some or no changes in estimates should result in adjustments to a residual or composite part of the margin.

** In September 2009, the IAS 37 staff will continue its discussion with the Board on guidance for estimating future cash flows for those obligations that the entity fulfils by undertaking a service ('service obligations'). As a result of that debate, this particular feature of the candidate based on updated IAS 37 model may change.

	Measurement approach based on updated IAS 37 model	**Current fulfilment value**
Risk margin – initial measurement	Estimates the value to the entity of not having to bear the risk in the expected cash flows.	Uses premium as basis for determining the initial composite margin.
Risk margin – subsequent measurement	Remeasured at each reporting date.	Not applicable. (Implicit release as the composite margin runs off)
Service margin	The profit the insurer requires for undertaking services. [estimated by considering the amount a subcontractor would charge for undertaking a service].*	No explicit service margin. Implicit in the "composite margin".
Service margin – subsequent measurement	Remeasured at each reporting date.	Not applicable. (Implicit release as the composite margin runs off)
Day one difference (the difference between the actual margin and the required margin)	No profit at inception; "residual margin" recognised as a separate item (presumably within the insurance liabilities).	No profit at inception; "composite margin" recognised as a separate item (presumably within the insurance liabilities).
Liability adequacy test	Not applicable.	Not applicable.
Acquisition costs	Expensed when incurred.	Expensed when incurred.

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	Measurement approach based on updated IAS 37 model	**Current fulfilment value**
Part of the premium expected to recover **incremental** acquisition costs	IASB: Recognised as revenue on day one. FASB: Included in the residual margin.	IASB: Recognised as revenue on day one. FASB: Included in the composite margin.
Own credit risk	To be discussed (arguably implicit in residual margin at inception).	To be discussed (arguably implicit in composite margin at inception).