Overview of Margins for Insurance Contracts

Candidate		Margin components	Objective of the margin	Classification	Subsequent measurement
1	Building block approach – separate risk adjustment plus a residual margin	Risk adjustment	Measure the amount the insurer would rationally pay to be relieved of the risk.	Part of the fulfilment value.	Remeasured at each subsequent reporting date.
		Residual margin	Eliminating any day one profit and releasing that amount over time.	Part of the carrying amount of the insurance liability, but not part of the fulfilment value.	Released to profit or loss over the coverage period in a systematic way that best reflects the exposure from providing insurance coverage.
2	Building block approach – composite margin	Composite margin	Eliminate any day one profit releasing that amount over time. This includes an implicit component for risk.	Part of the carrying amount of the insurance liability, but not part of the fulfilment value.	Released to profit or loss over time based on (1) the driver that best reflect the characteristics of the margin, or (2) the insurer's exposure from providing insurance coverage as well as its exposure to uncertainties related to the future cash flows. [Choice between 1 and 2 to be made at this meeting]
3	Premium allocation (Possible simplified measurement)	Implicit margin	N/A	Part of the carrying amount of the insurance liability.	Implicitly released by recognising revenue as the premium is considered earned.