Project **Insurance Contracts**

Topic **Presentation of the performance statement**

Purpose of this paper

1. This paper discusses presentation of the performance statement (the statement of comprehensive income). To achieve that, this paper:

   (a) describes the models we identified for presenting the performance statement.

   (b) addresses fundamental questions that need to be answered to select a presentation model (or models).

2. The appendix to this paper includes examples illustrating the models. These examples also illustrate, at a high level, how an insurer could disaggregate changes in insurance liabilities in the performance statement, including presentation of subsequent remeasurements. The base case is similar to the one used in the paper on presentation discussed at the extra joint meeting on January 5 (papers issued in December), but the presentation models (examples) have been somewhat rearranged to fit the purpose of this paper.

3. This paper focuses, at a high level, on the structure of performance reporting for insurance contracts and is not aimed at a detailed discussion of what items are shown on the face of the performance statement.

Summary of staff recommendations

4. This paper argues that that the measurement approach should drive the presentation model for the performance statement. In paragraph 15, staff listed performance information that, as a consequence of that principle, as a minimum, should be presented on the face of the performance statement.

5. As a consequence, staff recommends that the boards should not select a 'traditional' premium allocation approach like the one included in example 3 in the appendix to this paper as the presentation model for all types of contracts (although it may still be used as a basis for the presentation for a simplified measurement approach based on premium allocation (formerly known as 'unearned premium approach')).

6. Based on those recommendations, staff identifies two approaches that the boards can use as the presentation model for insurance contracts (except where a simplified measurement approach would be applied, see paragraph 43-47):

   (a) a summarised margin approach

   (b) an expanded margin approach, based on either

      (i) the entire premium the policyholder pays under the contract

      (ii) the part of the premium that the policyholder pays for services under the contract.

Structure of the paper

7. The rest of this paper is divided into the following sections:

   (a) Background (paragraphs 8-11)
   (b) Presentation models (paragraphs 12-13)
   (c) How does measurement drive presentation? (paragraphs 14-20)
   (d) A summarised presentation (paragraphs 21-24)
   (e) An expanded presentation (paragraphs 25-33)
   (f) Summarised or expanded presentation? (paragraphs 34-42)

(g) Presentation for a simplified approach (paragraphs 43-47)

Background

8. In previous meetings, the boards decided tentatively that the proposed measurement approach should portray a current assessment of the contract, using the following building blocks:

   (a) the unbiased, probability-weighted average of future cash flows that will arise as the insurer fulfils the obligation;

   (b) time value of money;

   (c) a risk adjustment for the effects of uncertainty about the amount and timing of future cash flows; and

   (d) an amount that eliminates any gain at inception of the contract.

9. The core of that proposed measurement model is a direct liability measurement based on a building block approach, supplemented by an allocation of a deferred day-one difference (residual margin). The aim of this measurement is not only to report performance under insurance contracts, but also to provide useful information about the variability inherent in the future cash flows from those contracts.

10. The outcome of that measurement approach determines the release of margins (‘bottom-line’), derived from the difference between the measurements at the beginning and end of the period. That number is a given, however we need to decide how to present the income statement.

11. That is a fundamental difference from the model proposed in the project on revenue recognition:

   (a) the proposed revenue recognition model allocates ‘top-line’ revenue over the life of a contract. Together with the expenses incurred, that allocation drives profit or

loss for the reporting period. A change in allocation of revenue would therefore result in a different profit pattern.

(b) the proposed insurance contracts model basically 'allocates' the margin over the life of the contract and in addition reports changes in estimates. Whichever presentation model we adopt, the profit for the year would be unchanged, but components of that profit would depend on the presentation model chosen by the boards. [We discuss in paragraph 31 how to achieve that.]

Presentation models

12. During the January 5 joint meeting, the boards discussed presentation models for insurance contracts. The boards tentatively decided at that meeting that the presentation model should not report revenues on the basis of payments received from the policyholder (written premium).

13. Hence, we consider the following presentation models in this paper, using the labels used in the December paper:

(a) **Summarised margin.** Premiums received are recognised as a deposit receipt. Subsequently, as the insurer performs under the contract:

(i) the risk adjustment is recognised in the income statement as the insurer is released from risk so that the related portion of the risk adjustment is no longer needed.

(ii) the residual margin is recognised in the income statement based on the driver selected for releasing that margin. The boards decided tentatively that the exposure draft should provide specific guidance on this driver, which we will address in a future meeting.

The summarised margin model treats all premiums as deposits and all claims and benefits as repayments to the policyholder; those elements are treated as movements of the insurance liability.

(b) **Expanded margin.** Reports as revenue an amount equal to the margin released during the reporting period plus some or all of the policyholder claims and benefits and other expenses. This approach could be seen as an 'expansion' of a 'pure' margin presentation. [Previously, staff also identified a fee presentation. However, for this paper, we see a fee presentation as something that might be applied as part of an expanded margin approach; see paragraph 28.]

(c) **'Traditional' premium allocation** (formerly known as 'earned premium')**.** The premiums received from the policyholder are recognised as a liability (performance obligations) and are then released and reported as revenue as the insurer performs under the contract. Furthermore, this income statement presentation shows investment income, expenses and an item for the change in insurance liabilities.

How does measurement drive presentation?

14. As mentioned before, the boards selected a building block model for insurance because the measurement of insurance contracts should report changes in circumstances.

15. It would be logical to pursue a presentation of the performance statement that best fits the measurement model. In other words, the measurement approach drives the fundamental structure of the presentation model. To achieve this, we believe that the performance statement should, at least, give the following information on the face:

(a) the release of the expected margin during the period flowing from the measurement model, showing the release of the risk adjustment separately from the release of the residual margin either on the face of the income statement or in the notes.

(b) the difference between the expected and the actual cash flows.

(c) changes in estimates (remeasurements).

(d) Results from investments, showing separately

(i) interest income; and

(ii) interest on the insurance liability.

16. These items are demonstrated by the summarised margin approach in example 1[1] and the expanded margin approach in example 2[2] of the appendix to this paper.

17. Some might prefer to retain a more 'traditional' premium-based approach as demonstrated by example 3[3], supplemented with performance information in the notes. They would argue that a traditional approach is used under many existing accounting models and gives information about premium volumes, an important headline indicator. They might also argue that the information listed in paragraph 15 could be provided through disclosures.

18. However, we believe that information in the core of the measurement approach should have the most prominent display (ie on the face of the income statement). It is therefore more useful to provide the performance information on the face of the income statement and information about premiums in the notes than the other way around.

[1] In the paper discussed at the January 5 joint meeting, this model was displayed by example 4.
[2] In the paper discussed at the January 5 joint meeting, this model was displayed by example 5.
[3] In the paper discussed at the January 5 joint meeting, this model was displayed by example 2.

19. Staff therefore concludes that a 'traditional' premium allocation approach included in example 3 should not be selected as the basic presentation model (although it may still be useful as a basis for the presentation for a simplified measurement approach based on premium, see paragraphs 43-47).

Question # 1 for the boards
The staff recommends that the measurement approach should drive the presentation model for the performance statement. In paragraph 15, staff listed performance information that, as a consequence of that principle, at least should be presented in the face of the performance statement. Do you agree with the staff recommendation? Do you have any comments on the information in paragraph 15 that should be presented on the face of the performance Statement? As a consequence, staff recommends that the boards should not select a 'traditional' premium allocation approach like the one included in example 3 as the presentation model for all types of contracts (although it may still be used as a basis for the presentation for a simplified measurement approach based on premium allocation). Do you agree with the staff recommendation?

20. After having discussed what performance information, as a minimum, should be displayed on the face of the performance statement, one question needs to be answered. Do we want a summarised presentation or do we want to show additional items for revenue and expenses that give a more expanded presentation?

A summarised presentation

21. We could seek a presentation this is as summarised as possible and include just the elements mentioned in paragraph 15. That would keep the performance statement as concise as possible and avoid elements that could complicate the presentation.

22. However, a summarised margin approach cannot be reconciled to presentation models that report a revenue line with gross inflows. If, for example, an insurer used an a simplified measurement approach based on allocated premium for only part of its business, the insurer would have to include two presentation formats in its income statement; one for the summarised margin model and one for the

premium allocation model. The same would arguably be true if the insurer generates fees from asset management activities; the proceeds from those activities are reported as 'gross' revenue (applying our revenue recognition standards), with the accompanying costs reported separately as an expenses item.

23. Furthermore, a summarised margin approach does not report as revenue all of the consideration paid by the policyholder for services under the contract. Rather, it displays as income only a subset of that amount, namely the margin. As a result, it is inconsistent with the definition of revenue in IAS 18 *Revenue*, which defines revenue as **gross** inflows from an entity's ordinary activities. Under existing US GAAP, revenue is also presented as gross inflows from the entity's activities (except in situations where an entity is acting as an agent of another party). Consequently, the summarised margin approach does not show a number of line items, for example expenses, that would normally, as part of the natural flow of the items presented, be shown on the face of the performance statement.

24. Example 1 of the appendix to this paper illustrates a summarised margin approach.

An expanded presentation

25. The alternative to a summarised approach would be to expand the presentation to include information on both revenue and costs. The costs are reported as incurred and include claims and benefits, as well as the insurer's expenses, but the treatment of revenue requires further analysis. Two issues arise:

    (a) what should total revenue over the contract represent?

    (b) how should revenue be recognised over the life of the contract?

What should revenue represent?

26. We identified two approaches for what could be included in revenue:

    (a) the whole premium paid by the policyholder over the life of the contracts. For some types of contracts, particularly long-duration life contracts, this amount

would include deposit amounts (amounts that are repaid to the same policyholder for reasons other than the occurrence of an insured event).

(b) the part of the premium that reflects the insurance protection (and perhaps other services) provided under the contract; the revenue recognition model refers to this amount as the customer consideration.

27. Using the whole premium would report as revenue the whole consideration paid by the policyholder. This would use an input (the premium) that is readily available and also gives information about premium volumes. But that would 'inflate' the revenue line by the deposit payments and costs for the repayments of those deposit amounts. This would be inconsistent with the boards' proposals in the revenue recognition project, which reports as revenue only the amount the customer pays for goods and services and not any amount the customer pays for financial instruments. Because a part of the premium is for asset accumulation to fund future payments on surrender or maturity, the income statement would show a relatively large adjustment that adds that part of the premium to the insurance liability (see also paragraph 32(c)).

28. An approach that reports as revenue the part of the premium that reflects the insurance protection would be consistent with the boards' views in the revenue recognition project. For some types of contracts, the amount would be readily available. For contracts with no or only a small deposit component, the premium gives the amount the policyholder pays for services under the contract. Charges of contracts that have explicit charges, such as universal life contracts, could be used for this purpose as well. However, for other types of contracts the amount that the policyholder pays for services under the contract needs to be imputed.

29. In our view, the approach explained in paragraph 28 to report the part of the premium that reflects the insurance protection as revenue is not the same as unbundling of the premium, as discussed in agenda paper 14C (FASB memorandum 39C). Using an unbundled presentation the insurer would separate the premium into parts that belong to the separate components of the contract and treat the separated parts of the premium accordingly. The approach in paragraph 28,

in contrast to unbundling, specifies what the revenue line of an expanded margin approach should depict and explains how revenue should be derived. In some cases that may lead to outcomes that are very similar or identical to an unbundled approach, but that may not always be the case.

How should revenue be recognized

30. In their January 5 joint meeting, the boards tentatively rejected a model that recognises revenue on the basis of written premiums. Revenue would therefore be an allocation of the premium, or a part of the premium, over the life of the contract based on how the insurer performs under the contract. This paper does not discuss in detail the notion of performance under the contract; that will be part of a discussion in a future meeting.

31. But, as already mentioned, the 'bottom-line' is driven by the outcome of the measurement during the period. That often means the income statement needs to include an adjustment (or a 'plug', some would say) to reconcile the 'top-line' number to what flows from the measurement model. This adjustment reconciles:

    (a) allocated revenue less incurred costs for the period, with

    (b) the release of margin that follows from the difference between the measurements at the beginning and end of the period.

32. Such a reconciling item can be caused by:

    (a) A difference between the basis for allocating revenue and the driver(s) for changing the risk adjustment and for releasing the residual margin.

    (b) The unwinding of remeasurements that occurred in previous reporting periods. For example, as illustrated in example 2 in the appendix, if an insurer estimates at June 20X1 that cash outflows from July to December will be CU15 higher than previously estimated, the insurer accrues [the present value of] that change in estimates at 30 June as an expense. Subsequently, the expense recognised in the six months to 31 December, based on cash outflows, includes that amount of CU15 and to avoid double accounting, the income statement also includes a

credit of CU15, which is part of the unwinding of remeasurements in previous periods from the insurance liability of CU20 labelled in the example as 'benefits and expenses already accrued in previous periods' in the example. [In addition to the credit of CU15 for the cash flows, the release of benefits and expenses already accrued in previous periods of CU20 also includes CU5 for remeasurement of the risk adjustment on June 30].

(c) if the revenue line includes repayments to the same policyholders (deposit components), the expense lines include the amount added to the insurance liability to cover expected future benefit payments. In example 2, the revenue line is determined by an allocation over the life of the contract of the premiums (CU1,000) less the expected present value of maturity benefits determined at inception (CU762), with interest accreted. If, however, the whole premium is reported as revenue, the income statement would additionally show an expense item of approximately half of CU762 that accrues a part of the premium for benefits to be paid during the second period. This accrual will be reversed to the income statement at the same time as the benefits paid to the policyholder are recognised as an expense.

33. Example 2 of the appendix to this paper illustrates an expanded margin approach.

Summarised or expanded presentation?

34. This is a fundamental but difficult question. Staff acknowledges that both approaches have clear advantages, but also have issues.

35. Intuitively, a summarised margin flows more naturally from the measurement model. Furthermore, it does try to show further items on the presentation of the income statement that introduce allocation and presentation patterns that cannot be linked to the liability measurement directly and therefore require reconciliation. However:

(a) it will be challenging to integrate into one income statement a summarised margin presentation with presentation models that report a revenue line. An

insurer may have to use presentation models that report a revenue line for a simplified measurement approach for some insurance contracts (see paragraphs 43-47) or its other asset management services (such as mutual fund management).

(b) a summarised margin presentation would not show revenue and expenses on the face of the income statement. Information on premium inflows and expenses would have to be provided in disclosures.

36. An expanded margin approach would deal with those issues because:

(a) the boards could seek consistency with revenue recognition, by reporting as revenue the consideration the customer pays for services under the contract.

(b) it provides fundamental information about costs that, arguably, needs to be reported on the face of the income statement.

(c) it would allow for a single presentation model because it is arguably reconcilable with presentation models that report a revenue line.

37. But if the boards were to pursue an expanded presentation, it would have to address some significant issues and challenges.

38. All forms of an expanded presentation involve a reconciling adjustment which may user find difficult to understand.

39. Arguably the simplest approach to an expanded margin presentation would be to use premiums. But this would be inconsistent with revenue recognition for those premiums that include a significant deposit element. If boards reject a summarised margin approach, selecting another approach that also results in an inconsistency with revenue recognition would not be logical. Furthermore, the reconciling adjustment would be quite large because the deposit element in the premium would have to be ‘eliminated’ from profit or loss through an accrual to the insurance liability for expected future benefit payments.

40. More natural would be to use a principle that follows the definition of revenue recognition. However, this poses issues if that customer consideration amount is not readily available, which would arise in particular for contracts for which (a) the premium includes a significant deposit element and (b) it is impracticable to separate the part of the premium for services from the deposit element because those contracts do not have explicit charges. In that case the customer consideration has to be imputed. These imputations may make the presentation approach complicated, for example because significant tracking of historic information is necessary. And as a result of such imputations, the number that is reported as revenue may not be a precise reflection of the actual customer consideration under the contract.

41. In summary, we identified two presentation approaches that can be applied to insurance contracts (except where a simplified measurement approach would be applied), notably:

    (a) a summarised margin approach

    (b) an expanded margin approach, based on either:

        (i) the entire premium the policyholder pays under the contract.

        (ii) the part of the premium that the policyholder pays for services under the contract.

42. In applying these models, the boards could seek a single presentation model that applies to all types of contracts or choose separate presentation models for different types of contracts. Having argued earlier in this paper that measurement should drive presentation, all types of contracts measured by the building block approach would use the same basis listed in paragraph 15. The question then comes down to whether the performance statement should be summarised or expanded. So far, staff have not identified any reasons why:

    (a) for some should types of contracts an insurer should apply a summarised margin approach and for other types an expanded margin approach, or

(b) for some types of contracts an insurer should use an expanded margin approach that reports the entire premium the policyholder pays under the contract as revenue and for other types only report the part of the premium that the policyholder pays for services under the contract.

Question # 2 for the boards
In this section staff identified two approaches that the boards can use as the presentation model for insurance contracts (except where a simplified measurement approach would be applied) a. A summarised margin approach b. An expanded margin approach, based on either: (i) the entire premium the policyholder pays under the contract (ii) the part of the premium that the policyholder pays for services under the contract Which model do you support?

Presentation for a simplified measurement approach

43. For some types of contracts, the boards may decide to require or permit a premium allocation method (formerly referred to as 'unearned premium model') as a simplified measurement for the building block approach. This would applicable to contracts probably defined somewhere along the lines of short-duration contracts. The IASB decided tentatively in July 2009 to require such an approach. The FASB has not yet discussed this issue.

44. The basis for the presentation for this simplified measurement would a 'traditional' premium allocation presentation (example 3). But how would this presentation fit into the margin presentations as proposed in this paper? A premium allocation presentation would report:

(a) premium: for this type of contract, the premium would usually not include a significant deposit component. This means that the whole premium can be treated as customer consideration and allocated over the life of the contract.

(b) costs: this includes the incurred claims and expenses, but would not split those into (i) the expected costs based on the latest assumptions used and (ii) the difference between those expected costs and the actual losses.

(c) change in estimates: a premium allocation model does not update the measurement for changes in estimates unless the contract becomes onerous. If the contract becomes onerous, it would be consistent with the proposals in the revenue recognition project for the insurer to present the result of that remeasurement as a separate line item.

(d) interest income: the actual return on the financial assets held by the insurer.

(e) interest on insurance liability: the time value of money would also be applied to the insurance liability, unless it would be not be material to the net contract position from the insurance liability. Interest would be accreted to both (i) the unallocated premium and (ii) the incurred claims liability[4]

45. Based on this initial assessment, we suspect that, with a perhaps few slight modifications, the presentation that follows a simplified measurement approach can be integrated fairly naturally in a single approach based on an expanded margin presentation.

46. However, integrating a premium allocation presentation within a presentation based on a summarised margin approach would require more significant modifications to the structure of the income statement. The performance statement probably needs two sections in that case; one for the summarised margin and one for the premium allocation.

47. Staff will analyse this issue further when it develops the presentation model in more detail.

[4] The FASB will consider at a future meeting whether, in certain instances, a measurement of insurance contracts would use future cash flows with no margins and no discounting.

Appendix: Examples of Presentation Models

The following fact pattern is designed to illustrate the three presentations discussed in paragraph 13 of this agenda paper. 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:

1. One thousand policies with a premium of CU1,000, paid 1 January and covering death between 1 January and 31 December. If the policyholders are still alive on 31 December, a maturity benefit is paid. (all numbers below are presented in CU1,000).

2. At inception, the expected claims (including claims handling costs) are CU900.

    a. Death benefits: expected value of CU50, to be paid on 30 June and CU50 on 30 December.

    b. Maturity benefits: expected value of CU800, to be paid on 31 December.

3. Other expenses associated with the administration of the contracts CU80, incurred evenly through the period.

4. Expected investment return 8 per cent and risk free rate used to discount the liability cash flows 5 per cent.

5. At inception, the insurer determines the expected present value of the cash outflows as 935 and the risk adjustment as 40. Therefore, the residual margin at inception is CU25. The amount of risk and the risk adjustment decline evenly throughout the coverage period. The residual margin is also released evenly over the coverage period.

6. At June 30:

    a. the actual death benefits are CU60.

b. The insurer estimates that the expected claims for the second half of the year will increase by CU15 to CU65.

c. The insurer also increases its remaining risk adjustment by CU5 to CU25 because of an increase in the estimated quantity of risk associated with the remaining cash flows.

7. At December 30, the actual death benefits are CU75.

8. No differences between actual outcomes and previous estimates for other assumptions.

9. The examples have significant simplifications, for example no acquisition costs and no lapses. Furthermore, the examples assume that the effect of mortality experience on the total amount of the maturity benefits is not material.

10. Rounding differences may exist.

Example 1 Summarised Margin presentation

	Inception 1 Jan	*six months to 30 Jun*	*six months to 31 Dec*
Risk adjustment		21	26
Residual margin		13	13
Insurance margin	0	33	39
Experience adjustments		(10)	(10)
Changes in estimates		(20)	0
Acquisition costs	0		
Net gain at inception	0	0	0
Investment income		40	38
Interest on insurance liability		(25)	(23)
Net interest and investment	0	15	15
Profit	0	19	44

Balance sheet

	1 Jan	*30 Jun*	*31 Dec*
Cash	1,000	940	63
Insurance liabilities	(1,000)	(921)	
Equity	0	19	63

Comments:

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.

1. This format treats all premiums as deposits, and all claims expense, claims handling expense and other contract-related expense as repayments of deposits.

2. Insurance margin refers to the release of the margin from the start of the period to the margin at the end of the period. Thus, it represents the sum of:

(a) the risk adjustment attributable to risk borne during the period, including the effects of interest accrued on the risk adjustment. The release during a period will also reflect unwinding of remeasurements in previous periods. In this example, the release for the second period of CU26 consists of the release for the period of the risk adjustment determined at inception (CU20), unwinding of the remeasurement at 30 June (CU5) and the interest accreted to the risk margin (CU1).

(b) release of the residual margin, including the effects of interest accrued on the residual margin.

(c) it does **not** include the effect of remeasurements resulting from an **increase** in the estimated quantity of risk. The example includes this increase (CU5 at 30 June) in changes in estimates.

3. The experience adjustments show the difference between the expected cash flows included in the measurement (as determined at the beginning of the period) of the liability and the actual expenses during the period:

(a) First half year: expected death benefits of CU 50 versus actual death benefits of 60.

(b) Second half year: expected death benefits of CU 65 (estimate at June 30) versus actual death benefits of 75.

4. The income statement for the first half year shows changes in estimates of in total CU20 from the expected increases in expected claims (CU15) and risk adjustment (CU5) at June 30 (remeasurements).

Example 2 Expanded Margin presentation

	Inception 1 Jan	*six months to 30 Jun*	*six months to 31 Dec*
Revenue		123	125
Policyholder benefits		(50)	(65)
Expenses		(40)	(40)
Release of benefits and expenses accrued in previous periods		0	20
Insurance margin		33	39
Experience adjustments		(10)	(10)
Changes in estimates		(20)	0
Acquisition costs	0		
Net gain at inception	0	0	0
Investment income		40	38
Interest on insurance liability		(25)	(23)
Net interest and investment	0	15	15
Profit	0	19	44

Balance sheet

	1 Jan	*30 Jun*	*31 Dec*
Cash	1,000	940	63
Insurance liabilities	(1,000)	(921)	
Equity	0	19	63

Comments:

1. The amounts shown as revenue are computed as:

   (a) the premiums of CU1,000, less

   (b) the expected present value of maturity benefits determined at inception of CU762, plus

   (c) allocated evenly over the two reporting periods, and.

   (d) accretion of interest at the risk-free rate.

2. This example shows as revenue the part of the premium that the policyholder pays for services under the contract, imputed at inception. The summarised margin presentation in example 1 shows only the release of the margins.

3. The second half year includes a release of benefits and expenses accrued in previous periods of CU20. This amount reflects the release of the amounts accrued at June 30 resulting from the remeasurement at that date from the increases in expected claims (CU15) and risk margin (CU5). The remeasurement of the insurance liability is recognised in profit or loss in the first half year.

4. Alternatively, the revenue amounts could be determined from updated amounts. In that case, the release from insurance liabilities in the second half year of CU20 would have been included in the revenue line, resulting in revenue of CU145. But note that this amount of CU20 was not consideration provided by policyholders, it is a reversal of the remeasurement made at 30 June, with the reversal being made then for two reasons:

   (a) To avoid double counting of CU 15 of policyholder benefits already accrued at 30 June, but included in the liability measurement (and reported as an expense) in the six months to 30 June.

   (b) To report the release of an additional risk adjustment of CU5 recognised at 30 June but for which no customer consideration was received.

5. Another alternative would have been to report as revenue the whole premium. Under this alternative the reported revenue and cost items would be increased:

   (a) the revenue line would have shown the total premium of CU1,000 allocated over the two reporting periods, including accreted interest;

   (b) a reconciling adjustment for the first period (expense) for part of the premium that is accrued for the maturity benefit to be paid at the end of the contract, with a release of that accrued amount in the second period.

6. The amount shown for policyholder benefits and expenses are the expected value at the beginning of the period, not the actual amounts for the period. The difference between expected and actual is presented as an experience adjustment.

Example 3 'Traditional' Premium allocation presentation

	Inception 1 Jan	*six months to 30 Jun*	*six months to 31 Dec*
Premium revenue	0	500	500
Investment income		40	38
Claims and benefits		60	875
Change in insurance liability		421	(421)
Expenses		40	40
Acquisition costs	0	0	0
Total expenses	0	521	494
Profit	0	19	44

Balance sheet

	1 Jan	*30 Jun*	*31 Dec*
Cash	1,000	940	63
Insurance liabilities	(1,000)	(921)	
Equity	0	19	63

Comments:

1. The premium is recognised as revenue based on performance under the contract, which is evenly spread over the life of the contract.
2. The changes in insurance liabilities show significant movements because of the deposit element. This arguably shows that an earned premium approach is useful only if the deposit components is relatively small or can be seen as a prepayment for services under the contract.
3. The presentation does not show accretion of interest on the liability as a separate expense.