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Unbundling of insurance contracts

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Gail Tucker

Sam Gutterman

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Agenda

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- A: Simplified numerical unit-linked contract example – change in estimates
- B: Loan with waiver on death example

Objective of session
To consider how much difference unbundling makes

The accounting implications for a contract are:

Unbundling

- Separate the contract into the insurance and the non-insurance components
- Account for the insurance component in accordance with the insurance model
- Account for the non-insurance components in accordance with relevant accounting standards (e.g. financial instruments, revenue recognition)

No unbundling

- Treat all elements of the contract as one insurance contract under the proposed insurance model

Typical non-insurance features within insurance contracts

Insurance contracts may contain one or more features that are not regarded as insurance such as:

- Account balances in insurance contracts with significant savings elements
- Investment management services
- Deposits in non-life insurance contracts, such as experience or premium refunds
- Derivatives such as guaranteed minimum investment returns
- Other goods and services such as claims handling services for group health schemes that include stop loss insurance

Simplified unit-linked example

- Portfolio of 1,000 3-year single premium contracts of CU1,000
- Contracts invested in general equity unit-linked fund
- If policy holder dies during 3-year cover period beneficiary receives higher of unit account balance or CU1,200
- On maturity policy holder receives the current account balance
- 1% upfront fee on initial deposit
- 2% annual management fee on year end account balance value
- No acquisition costs
- No risk adjustment
- No management/administrative expenses
- No surrenders
- No subsequent changes in initial assumptions/estimate

Simplified unit-linked example

Assumptions

- Risk free with illiquidity adjustment discount rate 5%
- Growth in unit-linked fund 10% per year
- Probability of death at end of each period 1%

Simplified unit-linked example

We will use this example to consider the following:

Scenario 1: No subsequent changes in initial assumptions

A. No unbundling

B. Unbundling account balance under IFRS 9/IAS 39, all fees allocated to insurance

C. Unbundling account balance under IFRS 9/IAS 39 and some fees allocated to investment management service under IAS 18 and some fees to insurance

Scenario 2: Changes in investment return assumptions

Simplified unit-linked example: Scenario 1

Insurance cash flows for simplified unit-linked example

A. No unbundling

CU000	Day 0	Year 1	Year 2	Year 3	Total
Cash inflows					
Premium day 1	1,000.0	-	-	-	1,000.0
Cash outflows					
Guaranteed death benefits paid	-	(1.3)	(0.5)	-	(1.8)
"Investment account" paid on death	-	(10.7)	(11.4)	(12.1)	(34.2)
"Investment account" paid at maturity	-	-	-	(1,203.3)	(1,203.3)
Sub-total	-	(12.0)	(11.9)	(1,215.4)	(1,239.3)
Effect of discounting	-	0.9	1.6	245.2	247.7
Present value of outflows		(11.1)	(10.3)	(970.2)	(991.6)

Present value of outflows	**(991.6)**
Premium day 1	**1,000.0**
Residual margin	**8.4**

Simplified unit-linked example: Scenario 1

A. No unbundling

CU000	Day 0	Year 1	Year 2	Year 3
Income statement				
Residual margin on straight-line basis	-	2.8	2.8	2.8
Investment return	-	100.0	108.8	118.5
Unwind discount on insurance	-	(77.3)	(82.6)	(87.9)
Profit for period	**-**	**25.5**	**29.0**	**33.4**
Statement of financial position				
Investments	**1,000.0**	**1,088.0**	**1,185.0**	**87.9**
Insurance contract liability	1,000.0	1,062.5	1,130.5	-
Retained earnings	-	25.5	54.5	87.9
	1,000.0	**1,088.0**	**1,185.0**	**87.9**

Components of insurance contract liability:	
- Present value of cash outflows	991.6
- Residual margin	8.4
Liability calibrated to premium on Day 0	1,000.0

Simplified unit-linked example: Scenario 1

Insurance cash flows for simplified unit-linked example

B. Unbundle account balance under IFRS 9/IAS 39, all fees to insurance

CU000	Day 0	Year 1	Year 2	Year 3	Total
Cash inflows					
Premiums	10.0	21.8	23.2	24.8	79.8
Effect of discounting	-	(1.1)	(2.2)	(3.4)	(6.7)
Present value of inflows	10.0	20.7	21.0	21.4	73.1
Cash outflows					
Guaranteed death benefits paid	-	(1.3)	(0.5)	-	(1.8)
Effect of discounting	-	0.1	0.0	-	0.1
Present value of outflows		(1.2)	(0.5)		(1.7)
Present value of outflows					**(1.7)**
Present value of inflows					**73.1**
Residual margin					**71.4**

Simplified unit-linked example: Scenario 1

B. Unbundle account balance under IFRS 9/IAS 39, all fees to insurance

CU000	Day 0	Year 1	Year 2	Year 3
Income statement				
Residual margin on straight-line basis	-	23.8	23.8	23.8
Investment return	-	100.0	108.8	118.5
Change in financial liability	-	(99.0)	(105.7)	(112.8)
Unwind discount on insurance	-	3.1	2.3	1.3
Profit for period	**-**	**27.9**	**29.2**	**30.8**
Statement of financial position				
Investments	**1,000.0**	**1,088.0**	**1,185.0**	**87.9**
Insurance contract liability	10.0	3.6	0.3	-
Financial liability	990.0	1,056.5	1,127.6	-
Retained earnings	-	27.9	57.1	87.9
	1,000.0	**1,088.0**	**1,185.0**	**87.9**

The insurance contract on Day 0 represents expected net cash inflows (future fees) of CU61.4 (Inflows: CU63.1 Outflows: CU1.7) offset by the residual margin recognised of CU71.4. Upfront 1% fee of CU10 recognised as insurance contract cash flow on Day 0. Insurance contract liability at year 1 consists of unamortised residual margin of CU47.6 reduced by expected net cash inflows of CU44.0.

Simplified unit-linked example: Scenario 1

Comparison of no unbundling (A) and account balance unbundled (B)

CU000	Year 1		Year 2	
	Method A	**Method B**	**Method A**	**Method B**
Income statement				
Residual margin on straight-line basis	2.8	23.8	2.8	23.8
Investment return	100.0	100.0	108.8	108.8
Change in financial liability	-	(99.0)	-	(105.7)
Unwind discount on insurance	(77.3)	3.1	(82.6)	2.3
Profit for period	**25.5**	**27.9**	**29.0**	**29.2**
Statement of financial position				
Investments	**1,088.0**	**1,088.0**	**1,185.0**	**1,185.0**
Insurance contract liability	1,062.5	3.6	1,130.5	0.3
Financial liability	-	1,056.5	-	1,127.6
Retained earnings	25.5	27.9	54.5	57.1
	1,088.0	**1,088.0**	**1,185.0**	**1,185.0**

When unbundle, all expected future fees (2% management fees) are recognised as 'premium' resulting in much bigger residual margin than when not unbundled. Difference in profit profile is due to the increase in residual margin being recognised on straight-line bases.

Simplified unit-linked example: Scenario 1

C. Account balance with investment management fee under IAS 18. Assume half of 2% fee relates to investment management service

CU000	Day 0	Year 1	Year 2	Year 3
Income statement				
Residual margin on straight-line-basis	-	13.3	13.3	13.3
Investment management fee	-	10.9	11.6	12.4
Investment return	-	100.0	108.8	118.5
Change in financial liability	-	(99.0)	(105.7)	(112.8)
Unwind discount on insurance	-	1.5	1.1	0.7
Profit for period	**-**	**26.7**	**29.1**	**32.1**
Statement of financial position				
Investments	**1,000.0**	**1,088.0**	**1,185.0**	**87.9**
Insurance contract liability	10.0	4.8	1.6	-
Financial liability	990.0	1,056.5	1,127.6	-
Retained earnings	-	26.7	55.8	87.9
	1,000.0	**1,088.0**	**1,185.0**	**87.9**

Simplified unit-linked example: Scenario 1

Comparison of no unbundling (A) with account balance unbundled (B) and account balance and investment management fee unbundled (C)

CU000	Year 1			Year 2		
	Method A	**Method B**	**Method C**	**Method A**	**Method B**	**Method C**
Residual margin	2.8	23.8	13.3	2.8	23.8	13.3
Investment management fee	-	-	10.9	-	-	11.6
Investment return	100.0	100.0	100.0	108.8	108.8	108.8
Change in financial liability	-	(99.0)	(99.0)	-	(105.7)	(105.7)
Unwind discount on insurance	(77.3)	3.1	1.5	(82.6)	2.3	1.1
Profit for period	**25.5**	**27.9**	**26.7**	**29.0**	**29.2**	**29.1**
Statement of financial position						
Investments	**1,088.0**	**1,088.0**	**1,088.0**	**1,185.0**	**1,185.0**	**1,185.0**
Insurance contract liability	1,062.5	3.6	4.8	1,130.5	0.3	1.6
Financial liability	-	1,056.5	1,056.5	-	1,127.6	1,127.6
Retained earnings	25.5	27.9	26.7	54.5	57.1	55.8
	1,088.0	**1,088.0**	**1,088.0**	**1,185.0**	**1,185.0**	**1,185.0**

When unbundle account balance and IM fee, only half of expected future fees are recognised as 'premium' for insurance component resulting in reduced residual margin than when all fees are allocated to insurance.

Simplified unit-linked example: Scenario 2 – change in expected investment return

The unbundling decision impacts the accounting for changes in estimates/assumptions

- Where contracts are not unbundled, a change in expected investment return in years 2 and 3 only impacts on the cost of guaranteed benefits.
- Where contracts are unbundled, in addition to the impact on the cost of guaranteed benefits, the future expected fees allocated to the insurance component as a contract cash flow also impact the change in estimate number.

Refer to Appendix A for example illustrating the impact of changes in the investment return assumption when not unbundling (Scenario D.a) and when account balance and investment management service are unbundled (Scenario D.c).

Simplified unit-linked example

Other issues

Acquisition costs

- In practice many insurance contracts incur acquisition costs and may also have surrender charges designed to cover these costs if a contract is cancelled
- The treatment of acquisition costs may be different between financial instruments, revenue recognition and insurance contracts
- Judgement will be required to allocate acquisition costs and surrender charge income to the different components

Management expenses

- Insurers will have practical difficulty in determining how much of their portfolio's expense cash flows should be attributed to the investment management of any unbundled component and how much relates to the insurance component

Simplified unit-linked example

Investment management fee

- Example assumed half of annual management fee related to the investment management service
- In practice there may not be an explicit fee for this service within the contract
- Judgement will be required to allocate the fee or would management decide the entire fee is related to the financial liability?

Account balance

- This example assumed there was an explicit unit-linked account balance
- In practice many insurance contracts may not have such features
  - Discretionary benefits
  - Cash surrender value may be different from unit balance where no explicit surrender charge is given
  - Shadow account values for secondary guarantees may have multiple account balances

Simplified unit-linked example

Key points arising

- Profit profiles for insurance component depend on amortisation of residual margin which may not be significantly different from unbundling account balance
- Changes in estimates will be reflected differently if components are unbundled
- Allocation of premium/fees/charges/acquisition costs /expenses to different components is often unclear and will effect profit profiles
- Appendix B illustrates that significant differences occur when unbundled components are measured at amortised cost
- Components presented on an unbundled basis may not add meaningful or relevant information to users

Universal life contracts – Typical features

- Insurance coverage is provided for the life of the insured
  - Although usually a fixed total amount payable upon death, it can also take the form of increasing coverage (with fixed amount of death benefit in addition to an account value)
- Premiums are flexible
  - Depending on premiums pattern paid, the same contract can perform like a term insurance or endowment (heavy savings element) contract
- Charges and fees can take several forms (asset charges, per contract charge, sales load, a cost of insurance charge)
  - For example, they can be a function of the base from which interest is credited, the period of coverage, or the amount provided upon surrender
  - Form of fees are not necessarily related to services provided (e.g., expenses might be included in cost of insurance charges)

Universal life contracts – Typical features

- Various benefits can be included, such as
  - A guarantee of continuance if a specified amount of premiums are paid in
  - Higher interest rate if the contract is kept in-force for at least a certain period of time, e.g., ten or twenty years
  - An embedded long-term care benefit, in which part of the benefit can be payable while receiving nursing home services

Universal life contracts – More complex than single premium unit linked contract

- Flexible premium after issue
- Higher initial acquisition costs as a percentage of premium, relying on a longer coverage period to recover costs
- Some U.S. variations develop multiple account values
  - It arises due to various contractual guarantees (sometimes referred to as 'secondary guarantees', such as a guarantee of continuation of insurance with a minimum amount of premiums paid in)
  - The account value that is most relevant at a reporting date may depend upon particular pattern and amount of premiums paid and interest credited; thus, the account value for a contract may be derived under different assumptions at different times

Universal life contracts – More complex than single premium unit linked contract

- The same contract form can be sold / used in several different ways, depending on the policyholder
  - With significant amounts of premiums, can look similar to an accumulation account
  - With minimum premiums, can perform similar to term insurance
- Variations by country
  - Fixed cost of insurance (e.g., rates are level by age)
  - Loss due to investment return, offset by significant cross subsidy on mortality and expense elements

Universal life contracts – Unbundling complications

- Insurance component can either be a liability or an asset
- In many cases where there is a relatively smaller insurance component
  - Allocation of total commissions and other costs to insurance component may not produce meaningful information regarding insurance component
  - An allocation of these costs to components may be arbitrary
- If unbundled, the insurance contract's cash flows are really inter-component flows and not cash flows external to the insurer
- Components are inter-related with each other, as the amount of flows of one affects the benefits provided by the other

Universal life contracts – Unbundling complications

- The cash flow elements can be attributed to the components in several ways, e.g., commissions and expenses can be split in different ways, riders such as waiver of premium apply to both components
- Measuring a universal life insurance contract on an unbundled basis while measuring an economically similar whole life insurance contract may not produce similar results
- Presentation of components in different manner may not provide a clear picture of effect of sales or management of a portfolio of universal life insurance contracts

Conclusions

- Significant amount of work involved in unbundling
- Judgement required in allocating fees and costs to different components
- Pattern of amortisation and amount of residual margin will influence the extent of difference when components are unbundled
- Significant differences will occur when changes in estimates or unbundled components not measured at FVTPL (See Appendix B)
- Contracts that are similar economically may be measured differently if some are unbundled (e.g. universal life) and others bundled (e.g. whole life)
- Whilst certain components (e.g. deposits in life contracts) could be measured consistently across product types if unbundled, the insurance component may become inconsistent
- Is the measurement when components are unbundled more meaningful or relevant?

Appendix A: Simplified unit-linked example
Change in estimates

We demonstrated **Scenario 1** with no subsequent changes in initial assumptions in the main presentation.

This appendix illustrates **Scenario 2**: Changes in investment return assumptions using methods A and C from the main presentation

- Scenario D.a — No unbundling
- Scenario D.c — Account balance and investment management service unbundled

Appendix A
Simplified unit-linked example: Scenario 2

D.a At the end of year 1 the expectation of future investment return increases to 20% – no unbundling

CU000	Year 1		Year 2		Year 3	
Income statement	**Scenario D.a (Change)**	**Method A (Original)**	**Scenario D.a (Change)**	**Method A (Original)**	**Scenario D.a (Change)**	**Method A (Original)**
Residual margin	2.8	2.8	2.8	2.8	2.8	2.8
Change in estimate	0.5	-	-	-	-	-
Investment return	100.0	100.0	217.6	108.8	258.6	118.5
Unwind discount on insurance	(77.3)	(77.3)	(186.0)	(82.6)	(216.6)	(87.9)
Profit for period	**26.0**	**25.5**	**34.4**	**29.0**	**44.8**	**33.4**
Statement of financial position						
Investments	**1,088.0**	**1,088.0**	**1,293.2**	**1,185.0**	**105.2**	**87.9**
Insurance contract liability	1,062.0	1,062.5	1,232.8	1,130.5	-	-
Retained earnings	26.0	25.5	60.4	54.5	105.2	87.9
	1,088.0	**1,088.0**	**1,293.2**	**1,185.0**	**105.2**	**87.9**

Change in estimate eliminates the cost of the guaranteed benefit in year 2 due to better investment return and hence guaranteed amount is out of the money (account balance pays out)

Appendix A
Simplified unit-linked example: Scenario 2

D.c At the end of year 1 the expectation of future investment return increases to 20% – account balance and IM fee unbundled

CU000	Year 1		Year 2		Year 3	
Income statement	Scenario D.c (Change)	Method C (Original)	Scenario D.c (Change)	Method C (Original)	Scenario D.c (Change)	Method C (Original)
Residual margin	13.3	13.3	13.3	13.3	13.3	13.3
Investment management fee	10.9	10.9	12.7	11.6	14.8	12.4
Change in estimate	3.6	-	-	-	-	-
Investment return	100.0	100.0	217.6	108.8	258.6	118.5
Change in FV liability	(99.0)	(99.0)	(211.3)	(105.7)	(246.0)	(112.8)
Unwind discount	1.5	1.5	1.3	1.1	0.7	0.7
Profit for period	**30.3**	**26.7**	**33.5**	**29.1**	**41.4**	**32.1**
Statement of financial position						
Investments	**1,088.0**	**1,088.0**	**1,293.2**	**1,185.0**	**105.2**	**87.9**
Insurance contract liability/(asset)	1.2	4.8	(0.8)	1.6		
Financial liability	1,056.5	1,056.5	1,230.2	1,127.6	-	-
Retained earnings	30.3	26.7	63.8	55.8	105.2	87.9
	1,088.0	**1,088.0**	**1,293.2**	**1,185.0**	**105.2**	**87.9**

The change in expected investment return in years 2 and 3 increases the amount of the expected 1% fee allocated to the insurance component and eliminates the cost of the guaranteed benefit in years 2. The 1% investment management fee on the expected higher account balance is recognised over time. In year 2 the expected future fees exceed the unamortised residual margin resulting in an insurance contract asset.

Appendix A
Simplified unit-linked example: Scenario 2

Comparison of change in estimate of no unbundling (D.a) and unbundling of account balance and investment management fee (D.c)

CU000	Year 1		Year 2	
Income statement	**Scenario D.a**	**Scenario D.c**	**Scenario D.a**	**Scenario D.c**
Residual margin	2.8	13.3	2.8	13.3
Investment management fee	-	10.9	-	12.7
Change in estimates	0.5	3.6	-	-
Investment return	100.0	100.0	217.6	217.6
Change in FV liability	-	(99.0)	-	(211.3)
Unwind discount	(77.3)	1.5	(186.0)	1.3
Profit in period	**26.0**	**30.3**	**34.4**	**33.5**
Statement of financial position				
Investments	**1,088.0**	**1,088.0**	**1,293.2**	**1,293.2**
Insurance contract liability	1,062.0	1.2	1,232.8	(0.8)
Financial liability	-	1,056.5	-	1,230.2
Retained earnings	26.0	30.3	60.4	63.8
	1,088.0	**1,088.0**	**1,293.2**	**1,293.2**

When unbundled (D.c), the change in expected investment return in years 2 and 3 increases the amount of the expected 1% fee allocated to the insurance component which is recognised as a change in estimate in year 1.

Appendix B
Loan with waiver on death example

- Portfolio of 1,000 3-year loans of CU1,000
- Loans have 11% fixed rate of interest and annual repayments
- Outstanding balance waived on death
- Assumptions
  - Risk free with illiquidity adjustment discount rate 5%
  - Market interest rate for loan without waiver 8%
  - Insurer borrowing rate 6%
  - Borrowings repaid annually
  - Probability of death at each period end 1%
  - No subsequent changes in initial estimates

Appendix B
Loan with waiver on death example

We will use this example to consider the following:

Scenario 1: No subsequent changes in initial assumptions

A. No unbundling

B. Loan unbundled at amortised cost under IFRS 9/ IAS 39

Scenario 2: Changes in the discount rate using the above two methods

Scenario C.a No unbundling

Scenario C.b Account balance unbundled and measured at amortised cost

Appendix B
Loan with waiver on death example

A. No unbundling

CU000	Day 0	Year 1	Year 2	Year 3
Income statement				
Residual margin on straight-line basis	-	11.5	11.5	11.5
Insurance asset return/discount	-	82.8	57.5	30.0
Interest expense	-	(60.0)	(41.2)	(21.2)
Profit for period	**-**	**34.3**	**27.8**	**20.3**
Statement of financial position				
Insurance contract asset	1,000.0	696.2	363.7	-
Cash	-	24.0	51.3	82.4
	1,000.0	**720.2**	**415.0**	**82.4**
Capital borrowed	1,000.0	685.9	352.9	-
Retained earnings	-	34.3	62.1	82.4
	1,000.0	**720.2**	**415.0**	**82.4**
Components of insurance contract asset:				
Present value of cash inflows	1,034.5			
Loan granted on Day 0	(1,000.0)			
Residual margin	34.5			

Appendix B
Loan with waiver on death example

B. Loan unbundled at amortised cost

CU000	Day 0	Year 1	Year 2	Year 3
Income statement				
Residual margin	-	12.2	12.2	12.2
Interest income/discount	-	80.0	55.5	28.7
Interest expense	-	(60.0)	(41.2)	(21.2)
Unwind discount on insurance	-	1.8	1.4	0.8
Profit for period	**-**	**34.0**	**27.9**	**20.5**
Statement of financial position				
Financial asset	1,000.0	692.0	359.4	-
Insurance contract asset	-	3.9	4.1	-
Cash	-	24.0	51.3	82.4
	1,000.0	**719.9**	**414.8**	**82.4**
Capital borrowed	1,000.0	685.9	352.9	-
Retained earnings	-	34.0	61.9	82.4
	1,000.0	**719.9**	**414.8**	**82.4**

The difference between cash flows on loans with and without waiver is allocated to the insurance component of the contract. The insurance benefits reduce over time as the loan is repaid. The net cash flows from the insurance element are therefore increasing over time but the residual margin is recognised on a straight-line basis resulting in an insurance contract asset position.

Appendix B
Loan with waiver on death example

Comparison of no unbundling (A) and loan unbundled (B)

CU000	Year 1		Year 2	
	Method A	**Method B**	**Method A**	**Method B**
Income statement				
Residual margin	11.5	12.2	11.5	12.2
Investment income/discount	82.8	80.0	57.5	55.5
Interest expense	(60.0)	(60.0)	(41.2)	(41.2)
Unwind discount on asset	-	1.8	-	1.4
Profit for period	**34.3**	**34.0**	**27.8**	**27.9**
Statement of financial position				
Insurance contract asset	696.2	3.9	363.7	4.1
Financial asset	-	692.0	-	359.4
Cash	24.0	24.0	51.3	51.3
	720.2	**719.9**	**415.0**	**414.8**
Capital borrowed	685.9	685.9	352.9	352.9
Retained earnings	34.3	34.0	62.1	61.9
	720.2	**719.9**	**415.0**	**414.8**

When no unbundling, all future cash flows are discounted at the account balance rate (8%). When unbundled, the cash flows allocated to the insurance component are discounted at the risk free rate. Discounting the insurance component net inflows at the lower rate increases the residual margin amortisation but reduces unwind of discount (on asset compared to the investment income/discount).

Appendix B
Loan with waiver on death example

C.a At the end of year 1 the expected risk free rate increases from 5% to 7% in years 2 and 3 – no unbundling

CU000	Year 1		Year 2		Year 3	
Income statement	**Scenario C.a (Change)**	**Method A (Original)**	**Scenario C.a (Change)**	**Method A (Original)**	**Scenario C.a (Change)**	**Method A (Original)**
Residual margin	11.5	11.5	11.5	11.5	11.5	11.5
Investment income/discount	82.8	82.8	70.0	57.5	36.8	30.0
Change in estimate	(19.3)	-	-	-	-	-
Interest expense	(60.0)	(60.0)	(41.2)	(41.2)	(21.2)	(21.2)
Profit for period	**15.0**	**34.3**	**40.3**	**27.8**	**27.1**	**20.3**
Statement of financial position						
Insurance contract asset	676.9	696.2	356.9	363.7	-	-
Cash	24.0	24.0	51.3	51.3	82.4	82.4
	700.9	**720.2**	**408.2**	**415.0**	**82.4**	**82.4**
Capital borrowed	685.9	685.9	352.9	352.9	-	-
Retained earnings	15.0	34.3	55.3	62.1	82.4	82.4
	700.9	**720.2**	**408.2**	**415.0**	**82.4**	**82.4**

Significant change in profit profile due to use of current discount rate in insurance model whereas borrowing is measured at amortised cost

Appendix B
Loan with waiver on death example

C.b At the end of year 1 the expected risk free rate increases from 5% to 7% in years 2 and 3 – account balance unbundled at amortised cost

CU000	Year 1		Year 2		Year 3	
Income statement	Scenario C.b (Change)	Method B (Original)	Scenario C.b (Change)	Method B (Original)	Scenario C.b (Change)	Method B (Original)
Residual margin	12.2	12.2	12.2	12.2	12.2	12.2
Interest income	80.0	80.0	55.5	55.5	28.7	28.7
Change in estimate	(0.8)	-	-	-	-	-
Interest expense	(60.0)	(60.0)	(41.2)	(41.2)	(21.2)	(21.2)
Unwind discount rate	1.8	1.8	1.9	1.4	1.1	0.8
Profit for period	**33.2**	**34.0**	**28.4**	**27.9**	**20.8**	**20.5**
Statement of financial position						
Financial asset	692.0	692.0	359.4	359.4	-	-
Insurance contract asset	3.1	3.9	3.8	4.1	-	-
Cash	24.0	24.0	51.3	51.3	82.4	82.4
	719.1	**719.9**	**414.5**	**414.8**	**82.4**	**82.4**
Capital borrowed	685.9	685.9	352.9	352.9	-	-
Retained earnings	33.2	34.0	61.6	61.9	82.4	82.4
	719.1	**719.9**	**414.5**	**414.8**	**82.4**	**82.4**

Broadly similar profit profile due to use of amortised cost for the unbundled account balance and borrowing.

Appendix B
Loan with waiver on death example

Comparison of interest rate change between no unbundling (C.a) and unbundled account balance (C.b)

CU000	Year 1		Year 2	
	No unbundling	Account balance unbundled	No unbundling	Account balance unbundled
Income statement				
Residual margin	11.5	12.2	11.5	12.2
Interest income	82.8	80.0	70.0	55.5
Change in estimate	(19.3)	(0.8)	-	-
Interest expense	(60.0)	(60.0)	(41.2)	(41.2)
Unwind discount rate	-	1.8	-	1.9
Profit for period	**15.0**	**33.2**	**40.3**	**28.4**
Statement of financial position				
Financial asset	-	692.0	-	359.4
Insurance contract asset	676.9	3.1	356.9	3.8
Cash	24.0	24.0	51.3	51.3
	700.9	**719.1**	**408.2**	**414.5**
Capital borrowed	685.9	685.9	352.9	352.9
Retained earnings	15.0	33.2	55.3	61.6
	700.9	**719.1**	**408.2**	**414.5**

Any questions

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