Staff Paper

Project	**Insurance contracts**
Topic	**Refresher on presentation models**

What is this paper about?

1. Exposure Draft *Insurance Contracts* (ED) and the Discussion Paper *Preliminary Views on Insurance Contracts* (DP) proposed a summarised margin presentation approach that highlights the underwriting margin, experience adjustments or changes in estimates and interest on insurance contract liabilities. Those items can be regarded as the drivers of profitability of an insurer. The DP also included two alternative premium presentation approaches, the written premium approach, where premiums would be presented as revenues when receivable, and the allocated premium approach, where revenue would be recognized as the insurer performs under the contract by providing insurance coverage. The DP sought feedback on the usefulness of the information provided by a margin presentation approach compared to the two alternative premium presentation approaches, as well as feedback on which contracts would use each approach. Many commentators disagreed with the margin approach, in part because it is a fairly new concept for organising and presenting the statement of comprehensive income for insurers, and because many believe that some information is critical to include on the face of the financial statements rather than to include in disclosure.

2. The purpose of this paper is to remind the boards of the other approaches that were considered when they developed the presentation approach in the ED/DP and to place respondents' comments in the context of those previous decisions.

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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3. The staff will present new analysis that addresses the respondent's comments in a future meeting. We intend that the information provided in this paper will be a refresher to the boards before we present new alternatives in a future meeting.

4. In addition, this paper will not discuss whether:

   (a) a similar presentation model should be used for both short and long duration contracts.

   (b) some changes to the insurance liability should be presented in other comprehensive income (OCI) and

   (c) the boards should define 'operating profit' for insurance contracts.

   These issues, as well as presentation alternatives, will be the subject of future papers.

Background

5. The premium for an insurance contract could be viewed as comprising payments for elements such as:

   (a) The expected present value of payments to policyholders who incur insured losses.

   (b) The expected present value of other expenses.

   (c) A margin for services provided under the contract (including the service of bearing risk).

   (d) If applicable, the expected present value of repayments to policyholders that do not arise from insured losses (for example, some payments arising from annuities, endowments, some finite reinsurance contracts, some group insurance contracts).

6. Some view repayments to policyholders that do not arise from insured losses as, in substance, a deposit element (ie an element that would, if it were a separate instrument, be within the scope of the financial instruments standards).

Significant deposit elements are found in many longer term insurance contracts, particularly, but not exclusively, in life insurance. Such deposit elements may not be closely related to the underlying insurance exposure. Most believe that there should be consistency between the presentation of cash flows for the deposit element and the presentation of cash flows for similar financial instruments.

Presentation models

7. Historically, there are a number of different approaches to dealing with premiums in the statement of comprehensive income which reflect different views on the appropriate revenue for an insurance contract.

8. The ED/DP proposed a 'margin approach', in which premiums received are recognised as a deposit receipt, ie a movement in a liability in the statement of financial position. Subsequently, as the insurer is released from risk (and, if applicable, provides other services), the related portion of the margin is recognised as revenue in the statement of comprehensive income. The ED discussed two types of margin approach:

   (a) In the 'summarised margin approach' proposed in the ED/DP, all cash inflows associated with an insurance contract are treated as deposits received and all cash outflows are treated as repayments.

   (b) In an 'expanded margin approach', the summarised margin approach is expanded to provide information about premiums and claims by presenting in the statement of comprehensive income both changes in the risk adjustment and the release of the residual margin during the period, and some or all of the policyholder claims and benefits and other expenses.

9. The DP, in addition to the summarised margin approach, included two alternative premium presentation approaches, the written premium approach, and the allocated premium approach. The DP sought feedback on the usefulness of the information provided by a margin presentation approach compared to the two

alternative premium presentation approaches, as well as feedback on which contracts would use each approach. These approaches were explored by the IASB in the development of the ED.

(a) In the 'written premium' approach, premiums would be recognised as revenue when receivable and at the same time a corresponding increase in the liability is recognised as an expense (**traditional life model**).

(b) In the 'allocated premium' approach, premiums received would be recognised as a preclaims liability. As the insurer performs under the contract, the liability is recognised as revenue (**traditional non-life model**). This approach is sometimes also described as an earned premium approach.

10. Additionally, the Boards explored a fee approach:

(a) In a 'fee approach', the deposit element of premiums is recognised as a deposit receipt, as in a margin approach and the other elements of premiums that relate to amounts charged (explicitly or implicitly) to a policyholder for the provision of protection against risk (and, if applicable, other services) are recognised as revenue when the insurer performs under the contract. If those charges are made in advance, they would be treated initially as unearned premium.

11. The table below summarises each of the approaches.

Approach	**When is revenue recognised?**	**Which elements of the premium are recognised as revenue?**
Written premium (traditional life model)	On receipt, with amounts that relate to future periods added to insurance liabilities.	All elements
Earned premium (traditional non-life model)	On performance under the contract.	All elements

Fee	On performance under the contract.	The gross amount charged (explicitly, or perhaps implicitly) for services under the contract. Deposit elements are excluded. (Unlike the summarised margin approach shown in the next row, the fee approach displays gross amounts charged for services and gross claims and benefits incurred.)
Summarised margin	On performance under the contract.	Only a margin for services (including the bearing of risk) provided under the contract.
Expanded margin	On performance under the contract.	The margin for services provided under the contract, plus some or all elements relating to insured losses and other expenses.

Relevant questions in the exposure draft / discussion paper

12. Question 13(a) of the ED asked respondents the following:

> Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?

13. Question 28 of the DP asked respondents the following:

> The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.

14. Question 29 of the DP asked respondents the following:

> Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)?

Overview of comments on the ED / DP and alternatives proposed

15. Many, including a majority of users, find the information given by a margin-based approach helpful and valuable. However, there is limited support for the summarised margin presentation approach, because it eliminates from the statement of comprehensive income information about premiums, benefit payments and claims expenses. Most users state they want to see such information in the statement of comprehensive income. Many are uncomfortable with providing this information only in the notes, because they see such information as key to providing insight into the amount of new business written by insurers and the strain that this new business places on the resources of the insurer.

16. Nonetheless, some comment letters, and some roundtable participants, acknowledge the difficulty of combining the gross presentation with the proposed measurement model. Most alternatives offered in the comment letters focus on grossing up the margins that result from the measurement model to reflect written or earned premiums received. While acknowledging the limitations of these alternatives, many see premium information as a proxy for the revenue presented in other sectors.

17. The majority of respondents believe that there should be consistent reporting for all types of insurance contracts and that the fundamental differences between short-duration and long-duration contracts would not cause a need for different presentation formats.

18. Most respondents indicated that the main types of information they use include:

    (a) Growth (indicated by adjusted premium volume, premiums written, premiums earned, and fee income)

    (b) Ratios such as loss ratio, expense ratio, and combined ratio (which require the presentation or disclosure of premiums, losses, and expenses), particularly for non-life insurance

    (c) Operating income and operating expenses (currently a non-GAAP measure and not always defined consistently across entities)

(d) Change in benefit and claim liabilities

(e) Book value per share

(f) Yield on investment portfolio.

19. A few respondents propose a model which shows the relation between the estimated premiums over the entire life of new contracts, estimated fulfilment cash flows (expenses and benefits, as well as the risk adjustment) over the entire life of those contracts and margins (composite margin or risk adjustment and residual margin) with regard to those contracts as well as the effect of changes in estimates to the movements in the insurance liability. They argue that the estimated premiums of new contracts portray the activity of the insurer in attracting new business. In addition, the premium, coupled with loss / benefit information, portrays an insurer's underwriting results through information such as loss ratios.

Issues

20. If the boards were to require premiums to be recognised as revenue, the following issues arise:

    (a) Whether premiums should be recognised as revenue on a written or earned (or due) basis; and

    (b) Whether all elements of the premium, and in particular the deposit element, are revenue.

Written versus earned?

21. Traditionally premiums have been recognised in the statement of comprehensive income either:

    (a) at receipt, with amounts that relate to future periods added to insurance liabilities, or

    (b) as 'earned' (or due) through performance under the contract.

Written basis

22. Recognising premiums when receivable is simple in the sense that it simply recognises receipts (and payments) in the statement of comprehensive income. It is also used in many existing reporting models for life insurance and gives volume information to users. But it has three main disadvantages:

    (a) It recognises cash flows, rather than income and expenses in the statement of comprehensive income and is inconsistent with the definition of revenue proposed in the boards' project on revenue recognition.

    (b) the pattern in which premiums are written may differ from how the insurer performs under the contract - in some cases significantly.

    (c) the statement of comprehensive income for a period displays the premium written for that period with the claims and benefits relating to premiums written at an earlier time, perhaps in earlier periods.

23. These may impair the understandability and comparability of the statement of comprehensive income and many users question the usefulness of this presentation.

Earned basis

24. When premiums are recognised based on earned amounts, the written premium relating to future periods will be recognised as a liability for future services and treated as unearned. On subsequent performance under the contract, the premium will be 'earned' and therefore recognised as revenue. This is consistent with the model proposed in the revenue recognition project.

25. Accordingly, the boards concluded in developing the ED/DP that an insurer using the modified approach should recognise premiums on an earned basis rather than a written basis. However, as previously described, the DP sought feedback on both models.

Which elements of the premium should be recognised as revenue?

26. Under the model proposed in the project on revenue recognition, an entity would recognise as revenue the consideration provided by the customer for services provided under the contract. This section describes the board's previous consideration about whether all or some elements of the premium paid by policyholders relate to services provided under the contract. The staff believes this summary of prior decisions will be helpful to the boards' consideration of the benefits and drawbacks of alternative presentations which will be presented at future meetings.

Deposit elements do not relate to services provided under the contract

27. In developing the ED, the IASB oncluded that elements of premiums relating to expected future repayments (ie the deposit element) should not be recognised as revenue because they do not relate to services provided under the contract. Moreover, because the deposit element is not linked to a service provided under the contract, recognising revenue for the deposit element would in many cases result in a revenue recognition pattern that does not provide a useful depiction of performance.

28. Therefore, the IASB rejected approaches such as the written and earned premium approaches because they recognise all premiums as revenue and this results in useful information only when the deposit element is relatively small and it is reasonable to view most of the premium as a prepayment for a service. (The IASB concluded that those conditions do hold for those short duration contracts for which the IASB proposed the modified measurement approach. Therefore, the IASB proposed that an earned approach would be acceptable for those contracts.)

29. The approaches that avoid recognising revenue for deposit elements are:

    (a) The fee approach; and

    (b) Margin approaches.

The fee approach

30. The fee approach separates all or specified contracts into an insurance element and a deposit element. This approach could be applied even if unbundling is not applied for recognition and measurement. Such an approach would result in presentation in the statement of comprehensive income that is comparable to that for investment management by fund managers.

31. Some existing accounting models already use a fee approach in the performance statement, for example in *Financial Services – Insurance Topic* (944) of the FASB Accounting Standards Codification, first introduced to US GAAP by FAS 97 *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, which applies to universal life contracts[1] as well as to participating and non-guaranteed premium contracts that include features specified under that standard.

32. However, in developing the ED/DP, the boards concluded that a fee approach could be arbitrary and costly to apply, particularly for contracts that do not have separate explicit charges for the deposit and insurance elements (they are usually explicit in universal life contracts). Furthermore, if separating a contract into elements is not required for recognition and measurement, it would not be logical to require separation of the deposit element of a premium for the purpose of recognising revenue.

33. To minimise these potential difficulties, the boards could decide to apply a fee approach only to contracts for which the benefits of so doing are most likely to exceed the costs. However, one would need to decide how to define those contracts. Some have therefore argued that the insurer should have the ability to decide which approach to apply. However, the boards previously concluded that this would impair comparability.

[1] Universal life contracts could be described as a type of permanent life insurance that allows the policyholder, after its initial payment, to pay premiums at any time, in virtually any amount, subject to a specified minimum and maximum. Universal life contracts explicitly unbundle the charges (fees) for mortality and other expenses from other contract elements. A universal life contract also permits the policyholder to reduce or increase the death benefit more easily than under a traditional whole life policy.

Margin approaches

34. Margin approaches, which treat all premiums for all insurance contracts as deposit receipts would avoid both the recognition of revenue for deposit elements and the costs of separation. However, a margin approach would report only the released margin as revenue and would therefore be inconsistent with the proposed revenue recognition model because it would not recognise revenue for the full amount of the service elements. Many commentators note that this approach would be a significant change from current practice and that users would need disclosures to help them derive headline indicators and performance metrics.

35. The ED discussed both a summarised margin approach, which recognises in the statement of comprehensive income only changes in the measurement of the insurance liability, and an expanded margin approach, which also grosses up the margin for some or all expenses. However, in developing the ED, the IASB concluded that determining the amount presented in profit or loss could require significant costs (eg those associated with tracking historical information) and could result in amounts in profit or loss that cannot be related in a clear and understandable way to the amounts in the statement of financial position.

36. Therefore, the IASB proposed a summarised margin approach in the ED/DP. However, under this approach, the statement of comprehensive income does not show any information about premiums, claims and expenses.

Using different approaches for different classes of insurance contracts

37. The boards previously rejected using different approaches for different classes of insurance contract, to target those contracts that are most likely to contain significant deposit elements because defining when to use each approach would be arbitrary and difficult.

38. The boards also previously rejected permitting insurers to choose between a revenue presentation and a deposit presentation because this would undermine comparability.

Illustrations of alternative approaches

39. This section illustrates how different presentation approaches previously considered by the boards affect the statement of comprehensive income.

40. The staff will present new analysis and presentation alternatives in a future meeting.

41. The following fact pattern is designed to illustrate the presentation models discussed in this paper. To focus on the style of presentation rather than on recognition and measurement, the examples are simple and all use the same fact pattern, as follows:

    (a) 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.)

    (b) At inception, the expected claims (including claims handling costs) are CU900, comprising:

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

        (ii) Maturity benefits: expected value of CU800, to be paid on 31 December.

    (c) Other expenses associated with the administration of the contracts are CU80, incurred evenly through the period.

    (d) Expected investment return is 8 per cent and the risk free rate used to discount the liability cash flows is 5 per cent.

    (e) Acquisition costs of CU20 are incurred at inception of the contract.

    (f) At inception, the insurer determines the expected present value of the cash outflows as CU935 and the risk adjustment as CU40. Further, it pays acquisition costs of CU20. Therefore, the residual margin at inception is CU5. The amount of risk and the risk adjustment are expected to decline

evenly throughout the coverage period. The residual margin is also released evenly over the coverage period.

(g) At 30 June:

   (i) the actual death benefits for the six months to that date are CU60.

   (ii) the insurer estimates that the expected claims for the second half of the year will increase from the original estimate of CU50 by CU15 to CU65.

   (iii) 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.

(h) For the six months to 31 December, the actual death benefits are CU75 (CU10 more than the expected value of CU65 as estimated at 30 June and CU25 more than the expected value of CU50 as estimated at inception).

(i) No differences between actual outcomes and previous estimates for other assumptions.

42. The examples have significant simplifications, for example no lapses. Furthermore, the examples assume that the effect of mortality experience on the total amount of the maturity benefits is not material. Rounding differences may also exist.

43. The roll-forward of the insurance liability for each reporting period is as follows:

Liability Roll-forward

	Inception 1 Jan	*six months to 30 Jun*	*six months to 31 Dec*
Beginning	0	980	911
Cash movements			
Premiums received	1,000		
Claims and expenses paid		(100)	(915)
	1,000	(100)	(915)
Income and expenses			
Release of risk adjustments		(21)	(26)
Release of in residual margin		(2)	(2)
Interest accreted		25	23
Gains and losses on inception	(20)		
Experience adjustments		10	10
Changes in estimates		20	
	(20)	31	4
Total change in liability	980	(69)	(911)
Ending	980	911	0

Example 1 – Written Premium

Statement of comprehensive income	*Inception 1 Jan*	*six months to 30 Jun*	*six months to 31 Dec*
Premium revenue	1,000		
Investment income		39	37
Total income	1,000	39	37
Claims		60	875
Change in insurance liability	980	(69)	(911)
Expenses		40	40
Acquisition costs	20	0	0
Total expenses	1,000	31	4
Profit	0	8	33

Statement of financial position	*1 Jan*	*30 Jun*	*31 Dec*
Cash	980	919	41
Insurance liabilities	(980)	(911)	
Equity	0	8	41

Reconciliation with movements in Insurance liabilities

Total expenses included in measurement of insurance liabilities	980	31	4
Recognised premium revenue	1,000		
	(20)	31	4
Income and expenses			
Release of risk adjustments		(21)	(26)
Release of in residual margin		(2)	(2)
Interest accreted		25	23
Gains and losses on inception	(20)	0	0
Experience adjustments		10	10
Changes in estimates		20	0
	(20)	31	4
	0	0	(0)

Comments:

44. The whole premium is reported as revenue on receipt. The amount of acquisition costs of CU20 is recognised as an expense at inception of the contract, together with a change in the insurance liability.

45. If the contract were to include a policyholder account balance of an account-driven contract, a deposit element belonging to that account balance would be unbundled. In that case, revenue at inception would be CU238, equal to the total premium CU1,000 minus the deposit element CU762 (for this example determined as the expected present value of maturity benefits of CU800).

46. The changes in insurance liabilities show significant moments from a) accruing the premium received at inception and b) releasing the part of the liability that covers the maturity benefit at the end of the contract.

Example 2 – Earned Premium

	Inception 1 Jan	*six months to 30 Jun*	*six months to 31 Dec*
Premium revenue	20	490	490
Investment income		39	37
Claims		60	875
Change in insurance liability		421	(421)
Expenses		40	40
Acquisition costs	(20)	0	0
Total expenses	20	521	494
Profit	0	8	33

Balance sheet

	1 Jan	*30 Jun*	*31 Dec*
Cash	980	919	41
Insurance liabilities	(980)	(911)	
Equity	0	8	41

Reconciliation with movements in Insurance liabilities

Total expenses included in measurement of insurance liabilities	-	521	494
Recognised premium revenue	20	490	490
	(20)	31	4
Income and expenses			
Release of risk adjustments		(21)	(26)
Release of in residual margin		(2)	(2)
Interest accreted		25	23
Gains and losses on inception	(20)	0	0
Experience adjustments		10	10
Changes in estimates		20	0
	(20)	31	4
	0	0	(0)

Comments:

47. The premium is recognised as revenue based on performance under the contract, which is evenly spread (allocated) over the life of the contract. Under this approach the revenue line reports the amount of earned premiums, ie the premiums written less any changes in unearned premiums.

48. The changes in insurance liabilities show significant movements because of the deposit element.

49. If the contract were to include a policyholder account balance of an account-driven contract, a deposit element belonging to that account balance would be unbundled, as in example 1. This would have been reduced in accordance with the premium revenue recognised over the life of the contract, and the corresponding change in insurance liability.

50. Acquisition costs of CU20 are recognised at inception of the contract as an expense and a corresponding amount of revenue is also recognised at inception to cover the amount of those costs. (This presentation of acquisition costs is consistent with examples previously given to the boards. However, the IASB ultimately adopted a slightly different presentation in the exposure draft: no acquisition cost expense or revenue would be recognised at inception. Instead, the premium revenue of CU1,000 and acquisition cost of CU20 would be recognised evenly over the 12 months of the coverage period to 31 December.)

Example 3 – Summarised Margin

	Inception 1 Jan	*six months to 30 Jun*	*six months to 31 Dec*
Risk margin		21	26
Residual margin		2	2
Underwriting margin	0	23	29
Experience adjustment		(10)	(10)
Changes in estimates		(20)	0
Net gain at inception	0	0	0
Investment income		39	37
Interest on insurance liability		(25)	(23)
Net interest and investment	0	15	14
Profit	0	8	33

Balance sheet

	1 Jan	*30 Jun*	*31 Dec*
Cash	980	919	41
Insurance liabilities	(980)	(911)	
Equity	0	8	41

Reconciliation with movements in Insurance liabilities

Underwriting margin		(23)	(29)
Experience adjustments		10	10
Changes in estimates		20	0
Interest on insurance liabilities		25	23
Total expenses included in measurement of insurance liabilities	0	31	4
Income and expenses			
Release of risk adjustments		(21)	(26)
Release of in residual margin		(2)	(2)
Interest accreted		25	23
Gains and losses on inception	0	0	0
Experience adjustments		10	10
Changes in estimates		20	0
	0	31	4
	0	0	0

Comments:

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

52. The line labelled as underwriting 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.

53. 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.

54. 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:

55. First half year: expected death benefits of CU50 versus actual death benefits of CU60.

56. Second half year: expected death benefits of CU65 (estimate at 30 June) versus actual death benefits of CU75.

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

58. Acquisition costs of CU20 do not appear on the face of the performance statement as they are treated as an element of the repayment of the insurance liability, and are considered as any other cash outflows computed for the determination of the amount of the insurance liability at inception of the contract. If the acquisition costs were not fully recoverable at inception, a day one loss would arise.

Example 4 – Expanded Margin

	Inception *1 Jan*	*six months to 30 Jun*	*six months to 31 Dec*
Premium revenue	20	113	114
Policyholder benefits		(50)	(65)
Expenses		(40)	(40)
Acquisition costs	(20)	0	0
Expenses incurred in this period, but already accrued in previous periods		0	20
Underwriting margin	0	23	29
Experience adjustment		(10)	(10)
Changes in estimates		(20)	0
Investment income		39	37
Interest on insurance liability		(25)	(23)
Net interest and investment	0	15	14
Profit	0	8	33

Balance sheet

	1 Jan	*30 Jun*	*31 Dec*
Cash	980	919	41
Insurance liabilities	(980)	(911)	
Equity	0	8	41

Reconciliation with movements in Insurance liabilities

Underwriting margin		(23)	(29)
Experience		10	10
Changes in estimates		20	0
Interest on insurance liabilities		25	23
Total expenses included in measurement of insurance liabilities	0	31	4
Income and expenses			
Release of risk adjustments		(21)	(26)
Release of in residual margin		(2)	(2)
Interest accreted		25	23
Gains and losses on inception	0	0	0
Experience adjustments		10	10
Changes in estimates		20	0
	0	31	4
	0	0	0

Comments:

59. The amounts shown as revenue are computed as the difference, allocated evenly over the two reporting periods, between:

    (a) the premiums of CU1,000, less the acquisition costs of CU20, and

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

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

60. This example shows as revenue the part of the premium that the policyholder pays for risk-bearing services under the contract. That part is imputed at inception. In contrast, the summarised margin presentation in example 3 shows only the release of the margins and does not show a top-line revenue corresponding to the originally expected cash outflows plus the margin.

61. 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 30 June resulting from the remeasurement at that date of expected claims (CU15) and risk margin (CU5). The remeasurement of the insurance liability is recognised in profit or loss in the first half year.

62. Alternatively, the revenue amounts could be determined from updated amounts. In this case, the amount of the revenue line item would be the result of the grossing-up of the margin for expected claims and expenses, based on the latest assumptions, including those expected claims and expenses for which no premium was received. Therefore, in the second half year, the release from insurance risk and the amount corresponding to expenses already accrued in previous period of CU20 would have been included in the revenue line, resulting in revenue of CU134 (CU114+CU20).

63. In sum, in the six months to 31 December, the revenue of CU134 would be made up of the following amounts:

    (a) The revenue of CU114, plus

(b) The release of CU20 relating to expenses already accrued in previous period. This is in turn made up of:

  (i) CU 15 of policyholder benefits already accrued at 30 June, but reported again as an expense in the six months to 31 December.

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

64. However, note that the amount of CU20 was not consideration provided by policyholders, but it is a reversal of the remeasurement made at 30 June.

65. 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 (less the amount of CU20 covering incremental acquisition costs) allocated over the two reporting periods, including accreted interest;

(b) a reconciling adjustment of CU381 (50% of the entire deposit element of CU762) 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.

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

67. Acquisition costs of CU20 are recognised at inception of the contract as an expense and a corresponding amount of revenue is also recognised to cover the amount of those costs.