

Appendix A - Example #1

Modified Approach

Premiums earned	2,139
Claims incurred	(1,422)
Expenses incurred	(341)
Release of composite margin	123
Change in risk margin	-
Experience adjustment	(22)
Changes in additional liability for onerous contracts	-
Amortization incremental acquisition costs	(331)
Change in assumptions	3
Underwriting margin(modified approach)	149

Building Block Approach

Release of composite margin	252
Change in residual margin	-
Change in risk margin	-
	252

Premiums due	4,228
Actual Benefits	(2,992)
Actual Expenses	(607)
Expected net change in the liability for the period	(690)
Experience adjustment	(61)
Change in assumptions	(39)
Underwriting margin(building block approach)	153

Other

Non-incremental acquisition costs	(196)
	105

Interest accreted on the expected net cash flows	(1,300)
Investment income	1,228
	(72)

Profit before change in discount rate	34
Change in discount rates	9
Income before tax	43
Income tax expense	(11)
Net Income	32

Example #1 presents volume information for the building block approach by recognizing actual amounts of related activity and a net amount reflecting the total change expected in the liability in the current period. For example, in this example a net increase in the liability(or net cash inflow) of 690 was expected, representing a debit amount on the income statement. Due to unusually high claims/benefits activity(as articulated in Example #2), the net cash inflow was only 629, representing an unfavorable experience adjustment of 61.

Appendix A - Example #2

Modified Approach

Premiums earned	2,139
Claims incurred	(1,422)
Expenses incurred	(341)
Release of composite margin	123
Change in risk margin	-
Experience adjustment	(22)
Changes in additional liability for onerous contracts	-
Amortization incremental acquisition costs	(331)
Change in assumptions	3
Underwriting margin(modified approach)	149

Building Block Approach

Release of composite margin	252
Change in residual margin	-
Change in risk margin	-
	252

Premiums Due	4,228	
less Premiums Expected	(4,221)	7
Actual Benefits	(2,992)	
less Benefits Expected	2,919	(73)
Actual Expenses	(607)	
less Expenses Expected	611	5
Experience adjustment		(61)
Change in assumptions		(39)
Underwriting margin(building block approach)		152

Other

Non-incremental acquisition costs	(196)
	105

Interest accreted on the expected net cash flows	(1,300)
Investment income	1,228
	(72)

Profit before change in discount rate	33
Change in discount rates	9
Income before tax	43
Income tax expense	(11)
Net Income	32

Example #2 disaggregates the net expected change in the liability for the period presented in Example #1 by Premiums, claims/benefits, and expenses. The staff note that the volume information can be provided parenthetically, in a footnote, or as shown here

Appendix A - Example #3

Premiums	6,367
Benefits/claims incurred	(4,409)
Expenses incurred	(948)
Expected net changes in the liabilities for the period	(1,093)
Experience adjustment	(83)
Release of composite margin	751
Change in risk margin	-
Change in residual margin	-
Change in assumptions	(36)
Changes in additional liability for onerous contracts	-
Amortization incremental acquisition costs	(330)
Underwriting margin	302
Other	
Non-incremental acquisition costs	(196)
	106
Interest accreted on the expected net cash flows	(1,300)
Investment income	1,228
	(72)
Profit before change in discount rate	34
Change in discount rates	9
Income before tax	43
Income tax expense	(11)
Net Income	32

Example #3 integrates building-block approach contracts with modified approach contracts using an approach similar to Example #1 and #2 in this Appendix. If the boards tentatively decide on this example the staff will consider the breakout of information for contracts accounted for using the building-block approach and separately, contracts accounted for using the modified approach, either in a segment footnote number (most line items will be required) or separate footnote.