Staff Paper	**IASB/FASB Meeting** **Week commencing 17 October 2011**	IASB Agenda reference	**4B Addendum**
		FASB Agenda reference	**74B Addendum**

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Project	**Insurance Contracts**
Topic	**Premium Allocation Approach: Eligibility Criteria**

Purpose of the paper

1. This paper provides clarification to the staff recommendation in Agenda Paper 4B/74B regarding the criteria to be eligible to use the premium allocation approach.

Summary of staff recommendations

3. The staff recommends that insurers should apply the building block approach rather than the premium allocation approach to contracts if ~~to portfolios of contracts when~~ either of the following apply:

    a. the building block approach provides more relevant information ~~for these portfolios~~ than the premium allocation approach, relative to the cost of providing that information. This might be the case ~~if the portfolio of contracts have~~ in either of the following circumstance ~~features~~:

        i. The expected cash flows before the claim is incurred are expected to vary significantly over the coverage period (for example, the contract contains options and guarantees that significantly affect the variability of cash flows based on changes in market factors) and such variance is not expected to result in recognition of an onerous contract adjustment; ~~and~~ or

  ii. (for the IASB) the risk in the contract associated with the liability for remaining coverage has the potential to vary significantly.

b. it is difficult to allocate the premium for the contract in a reliable and rational manner. This might be the case in any of the following circumstances:

  i. It is difficult to determine the amount of the premium to allocate to reporting periods, for example because the contract contains significant deposit elements that are not unbundled.

  ii. There is significant uncertainty about the length of the coverage period, for example because the contract includes options for renewal.

  iii. It is difficult to identify and separate the insurers' obligations to the policyholder arising from the contract, for example contracts where the expected payments to policyholders are affected by complex interdependent options.

4. In addition, some staff further recommend that, for portfolios of contracts in which most of the contracts' coverage periods are approximately one year or less, insurers should always be permitted to measure the liability for remaining coverage using the premium allocation approach as a proxy for the full building block approach.