Paper 03b

Fact Provided:

- 1 A two year contract is issued with premium of 100 to pay each year.
- 2 Death benefit is set at 220. No decrement in first year and 100% mortality is assumed at end of 2nd year.
- 3 At initial recognition, the contract is determined to be onerous, with PV outgo / PV inflow / BEL equal to 220 / 200 / 20 respectively and loss component being 20.
- 4 At the end of year 1, it is discovered a variance in premium of -30 occurs during year 1, and also as a result, death benefit is reduced by 60
- 5 There is no variance in decrement and no other cash flows variance in year 1 except the variance in premium
- 6 For simplicity, no discounting is assumed.
- 7 For simplicity, assume no CSM amortisation at the 2nd year CSM is re-established
- 8 For simplicity, assume no risk adjustment

To summarize the parameter:	CU		
PV outgo @ initial recognition	220	Expected Premium in year 1 @ initial recognition	100
PV inflow @ initial recognition	200	Actual Premium in year 1	70
BEL @ initial recognition	20	Expected Benefit Payment in year 1 @ initial recognition	0
Loss component @ initial recognition	20	Actual Benefit Payment in year 1	0
Variance in Premium @ year 1	-30	Expected Premium in year 2 @ year 1	100
Change in BEL @ year 1 due to prem var	-60	Actual Premium in year 2	100
		Expected Benefit Payment in year 2 @ year 1	160
		Actual Benefit Payment in year 2	160

View A

If the wording on the standard is taken at face value, experience variance on premium-related cash flow and investment component shall not lead to any adjustment to loss component. Please refer to tab View A. Variance in premium is not considered in loss component, when CSM has not been re-established.

View B

A more reasonable interpretation is that the criteria of unlocking CSM and loss component shall be the same.

This would mean the items in question shall be considered in loss component unlocking as well, such that the revenue will remain as a measure of premium. Please refer to tab View B

Conclusion:

- View A will provide diverse accounting treatment depending on the sequence in considering the variance
- Total revenue is 200 for View A and 170 for View B
- Considering the actual total premium (170) and the fact that the contract is finally profitable, a revenue of 170 shall be more consistent with the intention of IFRS 17
- View B is therefore considered a better interpretation

View A

If the wording on the standard is taken at face value, the items in question, i.e. experience variance on premium-related cash flow and investment component shall not lead to any adjustment to loss component.

Also assuming premium and investment component variances are considered before change in BEL

The following item is included in changes in estimates of future cash flows relating to future service (either Change in estimate reflected in CSM or Change in estimate that results in onerous losses)

- Change in BEL @ year 1 (CU-60)

The following item is excluded from changes in estimates of future cash flows relating to future service (without further guidance from the Standard, it does not adjust loss component given it is not "future" cash flows)

- Variance of Premium @ year 1 (CU-30)

Year 1	Estimates of the present value of future cash flows	Contractual service margin	Insurance contract	t Reference		DR	CR	Year I	Liability for remaining coverage excluding loss component	, Loss component of the liability for remaining coverage	Liability for	Insurance contract
Opening balance	-	-		1000		CU	CU	Opening balance	component	remaining coverage	incurred ciaims	natinity
Changes that relate to current service			-				CO	Insurance revenue			-	-
Changes that relate to future service:								Insurance service expense				7
 Contracts initially recognised 	(20))	(20	Onerous loss	P/L	(20) B/S - BEL	(20)	- Incurred claims				
- Change in estimate that results in onerous			(2)	ona out total	172	(20) DIO - DEL	(20)	- Change that relate to future service: losses	-	de la companya de la	_	N. S. C.
losses	20		20	Reversal of onerous loss due to BEL change	B/S - BEL	20 P/L	20	on onerous contracts		(20)		(00)
				The testing of control and the to DEE change	DID DEL	20 172	20	- Change that relate to future service:		(20)	1	(20)
- Change in estimate reflected in CSM	40	(4	0)	Re-establish CSM due to BEL change	B/S - BEL	40 B/S - CSM	(40)	reversal of onerous losses		20		00
change in contract in cont	10	1	"	Ne Common Com due to DEE Charge	DID - DEL	40 DIS - CSM	(40)	- Change that relate to future service:		20		20
- Change in estimate that is not reflected in				Experience adjustment in premium that is not				Experience adjustment in premium not				
CSM or onerous loss	(30))	(3(adjusted in CSM or loss component	P/L	(30) B/S - BEL	(30)	reflected in CSM or onerous loss	(20)			(00)
Insurance service result	10				T/L	(JU) DIS - BEL	(20)	Insurance service result	(30)			(30)
Insurance finance expense	-	1		(A)				Insurance finance expense) -	-	(30)
Cash flows	(70)) Cash premium received	Cash	70 B/S - BEL	(70)	Cash flows	ā	*	(40)	#.
Cush Hows	(10	9	(//	Cash premium received	Casti	10 DIS - DEL	(70)		eno.			(100)
								- Premium received	(70)	<u> </u>	-	(70)
								- Claims paid	-	14	320	4
Closing balance	(60) (40)) (100	<u>)</u>				Closing balance	(100)			(100)
Crossing Distance	(00	1-11	(100	,				Closing balance	(100)	ž - 5	(2.)	(100)
Year 2 Opening balance	Estimates of the present value of future cash flows	Contractual service margin	Insurance contract liability			DR	CR	Year 2	component	the liability for remaining coverage	Liability for incurred claims	Insurance contract liability (100)
Opening balance Changes that relate to current service	present value of future cash flows	service margin	liability (100)	B/S - CSM	DR 40 P/L	CR 40		remaining coverage, excluding loss component (100)	the liability for remaining coverage		liability (100)
Opening balance	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue	remaining coverage, excluding loss component	the liability for remaining coverage		liability
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance	remaining coverage, excluding loss component (100)	the liability for remaining coverage	incurred claims	(100) 200
Opening balance Changes that relate to current service Changes that relate to future service:	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage		(100) 200
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts - Change that relate to future service; reversal of onerous losses - Change that relate to future service;	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM	present value of future cash flows (60	service margin (40	liability (100)	B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts - Change that relate to future service; reversal of onerous losses - Change that relate to future service; Experience adjustment in premium not	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in	present value of future cash flows (60	service margin) (40	liability (100) (100		B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts - Change that relate to future service; reversal of onerous losses - Change that relate to future service; reversal of onerous losses - Change that relate to future service; Experience adjustment in premium not reflected in CSM or onerous loss	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims (160)	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in CSM or onerous loss	present value of future cash flows (60	service margin) (40 40	liability (100) (100		B/S - CSM			Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses - Change that relate to future service: Experience adjustment in premium not reflected in CSM or onerous loss Insurance service result	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in CSM or onerous loss Insurance service result	present value of future cash flows (60	service margin (4(40 - - - - 40	liability (1000)		B/S - CSM B/S - BEL	40 P/L		Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts - Change that relate to future service; reversal of onerous losses - Change that relate to future service; reversal of onerous losses - Change that relate to future service; Experience adjustment in premium not reflected in CSM or onerous loss	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims (160)	(100) 200 (160)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in CSM or onerous loss Insurance service result Insurance finance expense	present value of future cash flows (60	service margin (4(40 - - - - 40	liability (1000)				40	Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses - Change that relate to future service: Experience adjustment in premium not reflected in CSM or onerous loss Insurance service result Insurance finance expense	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims (160)	(100) 200 (160) - - - - - - - - - -
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in CSM or onerous loss Insurance service result Insurance finance expense	present value of future cash flows (60	service margin (4(40 - - - - 40	liability (1000)			40 P/L	40	Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts - Change that relate to future service; reversal of onerous losses - Change that relate to future service; reversal of onerous losses - Change that relate to future service; Experience adjustment in premium not reflected in CSM or onerous loss Insurance service result Insurance finance expense Cash flows - Premium received	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	(160)	(100) (160) (160) (100) 40 (100)
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in CSM or onerous loss Insurance service result Insurance service result Insurance finance expense Cash flows	present value of future cash flows (60	service margin (4(40 - - - - 40	liability (1000)			40 P/L	40	Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses - Change that relate to future service: Experience adjustment in premium not reflected in CSM or onerous loss Insurance service result Insurance finance expense Cash flows	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	incurred claims (160)	(100) 200 (160) - - - - - - - - - -
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM - Change in estimate that is not reflected in CSM or onerous loss Insurance service result Insurance finance expense	present value of future cash flows (60	service margin (4(40 - - - - 40	liability (1000)			40 P/L	40	Year 2 Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service; losses on onerous contracts - Change that relate to future service; reversal of onerous losses - Change that relate to future service; reversal of onerous losses - Change that relate to future service; Experience adjustment in premium not reflected in CSM or onerous loss Insurance service result Insurance finance expense Cash flows - Premium received	remaining coverage, excluding loss component (100) 200	the liability for remaining coverage	(160)	(100) (160) (160) (100) 40 (100)

View B

A more reasonable interpretation is that the criteria of unlocking CSM and loss component shall be the same. This would mean the items in question shall be considered in loss component unlocking as well, such that the revenue will remain as a measure of premium.

The following items are included in changes in estimates of future cash flows relating to future service (either Change in estimate reflected in CSM or Change in estimate that results in onerous losses)

- Change in BEL @ year 1 (CU-60)
- Variance of Premium @ year 1 (CU-30)

Year 1	Estimates of the present value of future cash flows	Contractual service	e Insurance contract	Reference		D.D.		GD.		Liability for remaining coverage, ex
Opening balance	future cash flows	margin	павшу	Keterence		DR CU		CR CU	Year 1	loss compor
Changes that relate to current service						CU		LU	Opening balance Insurance revenue	
Changes that relate to future service:	-	-	-						Insurance revenue Insurance service expense	
- Contracts initially recognised	(20)	0	(20)	Onerous loss	P/L	(20)	B/S - BEL	(20)	- Incurred claims	
- Change in estimate that results in	(20		(20)	Reversal of onerous loss due to BEL change and	IIL.	(20)	DIS - DEL	(20)	Change that relate to future service:	
onerous losses	20	_	20	experience adjustment in premium	B/S - BEL	20	P/T	20	losses on onerous contracts	
	Section 1			Re-establish CSM due to BEL change and	DIO DELL	20	172	20	- Change that relate to future service:	
- Change in estimate reflected in CSM	10	(10	0)	experience adjustment in premium	B/S - BEL	10	B/S - CSM	(10)	reversal of onerous losses	
Insurance service result	10	(10	0) -	-					Insurance service result	
Insurance finance expense	820		-						Insurance finance expense	
Cash flows	(70)) -	(70)	Cash premium received	Cash	70	B/S - BEL	(70)	Cash flows	
									 Premium received Claims paid 	
Closing balance	(60)) (10	(70)						Closing balance	12-2
	Estimates of the									
	present value of future cash flows	margin	Insurance contract liability			DR		CR	Year 1	
Opening balance		margin (10	liability (70)						Opening balance	remaining coverage, ex
Opening balance Changes that relate to current service	future cash flows	margin	liability (70)			DR 10	P/L	CR 10	Opening balance Insurance revenue	remaining coverage, ex-
Opening balance Changes that relate to current service Changes that relate to future service:	future cash flows	margin (10	liability (70)				P/L		Opening balance Insurance revenue Insurance service expense	remaining coverage, ex-
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised	future cash flows	margin (10	liability (70)				P/L		Opening balance Insurance revenue Insurance service expense - Incurred claims	remaining coverage, exc
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in	future cash flows	margin (10	liability (70)				P/L		Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service:	remaining coverage, exc
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in	future cash flows	margin (10	liability (70)				P/L		Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts	remaining coverage, ex-
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in	future cash flows	margin (10	liability (70)				PIL		Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service:	
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM Insurance service result	future cash flows	margin (10	liability (70) (70) 10				P/L		Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service:	remaining coverage, exc
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in onerous losses - Change in estimate reflected in CSM Insurance service result Insurance finance expense	future cash flows (60)	margin (10 10 10 10 10 10 10 10 10 10 10 10 10 1	liability (70) (70) 10 10 10		B/S - CSM	10		10	Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses	remaining coverage, ex-
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in oncrous losses - Change in estimate reflected in CSM Insurance service result Insurance finance expense	future cash flows (60)	margin (10 10 10 10 10 10 10 10 10 10 10 10 10 1	liability (70) (70) 10 10 10	Benefits paid less eash premium received	B/S - CSM	10	P/L Cash		Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses Insurance service result Insurance finance expense Cash flows	remaining coverage, exc
Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in oncrous losses - Change in estimate reflected in CSM Insurance service result Insurance finance expense	future cash flows (60)	margin (10 10 10 10 10 10 10 10 10 10 10 10 10 1	liability (70) (70) 10 10 10		B/S - CSM	10		10	Opening balance Insurance revenue Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses Insurance service result Insurance finance expense Cash flows - Premium received	remaining coverage, exc
Opening balance Changes that relate to current service Changes that relate to future service: - Contracts initially recognised - Change in estimate that results in oncrous losses - Change in estimate reflected in CSM Insurance service result	future cash flows (60)	margin (10 10 10 10 10 10 10 10 10 10 10 10 10 1	liability (70) (70) 10 10 10		B/S - CSM	10		10	Opening balance Insurance revenue Insurance service expense - Incurred claims - Change that relate to future service: losses on onerous contracts - Change that relate to future service: reversal of onerous losses Insurance service result Insurance finance expense Cash flows	remaining coverage, exc

Year I	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
Opening balance		-		
Insurance revenue			(*)	
Insurance service expense				
- Incurred claims		-	191	
- Change that relate to future service:				
losses on onerous contracts	•	(20)		(20)
 Change that relate to future service: 				
reversal of onerous losses	œ: :	20	-	20
Insurance service result			-	-
Insurance finance expense			(4)	()-41
Cash flows				
- Premium received	(70)	- 3	-	(70)
- Claims paid	190		-	-
Closing balance	(70)			(70)
Year 1 Opening balance	Liability for remaining coverage, excluding loss component (70)	remaining coverage	Liability for incurred claims	Insurance contract liability (70)
Insurance revenue	170	-	2	170
Insurance service expense				
- Incurred claims	-		(160)	(160)
- Change that relate to future service:				
losses on onerous contracts		(6)		-
- Change that relate to future service:				
reversal of onerous losses		-		•
Insurance service result	170	(#)	(160)	10
Insurance finance expense	9		-	.*.
Cash flows				
- Premium received	(100)	5,50	-	(100)
- Claims paid	•	177.5	160	160
Closing balance		(%)		