

## 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)

	Estimates of the present value of future cash flows	Contractual service margin	Insurance contract liability	Reference	DR	CR	Year 1	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
Year 1							Opening balance	-	-	-	-
Opening balance	-	-	-		CU	CU	Insurance revenue	-	-	-	-
Changes that relate to current service	-	-	-				Insurance service expense	-	-	-	-
Changes that relate to future service:							- Incurred claims	-	-	-	-
- Contracts initially recognised	(20)	-	(20)	Onerous loss	P/L	(20) B/S - BEL	(20)	-	-	-	-
- Change in estimate that results in onerous losses	20	-	20	Reversal of onerous loss due to BEL change	B/S - BEL	20 P/L	20	(20)	-	-	(20)
- Change in estimate reflected in CSM	40	(40)	-	Re-establish CSM due to BEL change	B/S - BEL	40 B/S - CSM	(40)	20	-	-	20
- Change in estimate that is not reflected in CSM or onerous loss	(30)	-	(30)	Experience adjustment in premium that is not adjusted in CSM or loss component	P/L	(30) B/S - BEL	(30)	-	-	-	(30)
Insurance service result	10	(40)	(30)				Insurance service result	(30)	-	-	(30)
Insurance finance expense	-	-	-				Insurance finance expense	-	-	-	-
Cash flows	(70)	-	(70)	Cash premium received	Cash	70 B/S - BEL	(70)	-	-	-	(70)
							- Premium received	(70)	-	-	(70)
							- Claims paid	-	-	-	-
Closing balance	(60)	(40)	(100)				Closing balance	(100)	-	-	(100)

	Estimates of the present value of future cash flows	Contractual service margin	Insurance contract liability	Reference	DR	CR	Year 2	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
Year 2							Opening balance	(100)	-	-	(100)
Opening balance	(60)	(40)	(100)				Insurance revenue	200	-	-	200
Changes that relate to current service	-	40	40		B/S - CSM	40 P/L	40	-	-	-	40
Changes that relate to future service:							Insurance service expense	-	-	(160)	(160)
- Contracts initially recognised	-	-	-				- Incurred claims	-	-	-	-
- Change in estimate that results in onerous losses	-	-	-				- Change that relate to future service; losses on onerous contracts	-	-	-	-
- Change in estimate reflected in CSM	-	-	-				- Change that relate to future service; reversal of onerous losses	-	-	-	-
- Change in estimate that is not reflected in CSM or onerous loss	-	-	-				- Change that relate to future service; Experience adjustment in premium not reflected in CSM or onerous loss	-	-	-	-
Insurance service result	-	40	40				Insurance service result	200	-	(160)	40
Insurance finance expense	-	-	-				Insurance finance expense	-	-	-	-
Cash flows	60	-	60	Benefits paid less cash premium received	B/S - BEL	60 Cash	60	-	-	-	-
							Cash flows	-	-	-	-
							- Premium received	(100)	-	-	(100)
							- Claims paid	-	-	160	160
Closing balance	-	-	-				Closing balance	-	-	-	-

**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)

	Estimates of the present value of future cash flows	Contractual service margin	Insurance contract liability	Reference	DR	CR		Year 1	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
Year 1												
Opening balance	-	-	-		CU	CU		Opening balance	-	-	-	-
Changes that relate to current service	-	-	-					<b>Insurance revenue</b>	-	-	-	-
Changes that relate to future service:								Insurance service expense	-	-	-	-
- Contracts initially recognised	(20)	-	(20)	<i>Onerous loss</i>	P/L	(20)	B/S - BEL	(20)	-	-	-	-
- Change in estimate that results in onerous losses	20	-	20	<i>Reversal of onerous loss due to BEL change and experience adjustment in premium</i>	B/S - BEL	20	P/L	20	-	(20)	-	(20)
				<i>Re-establish CSM due to BEL change and experience adjustment in premium</i>	B/S - BEL	10	B/S - CSM	(10)	-	20	-	20
- Change in estimate reflected in CSM	10	(10)	-					Insurance service result	-	-	-	-
Insurance service result	10	(10)	-					Insurance finance expense	-	-	-	-
Insurance finance expense	-	-	-					Cash flows	-	-	-	-
Cash flows	(70)	-	(70)	<i>Cash premium received</i>	Cash	70	B/S - BEL	(70)	(70)	-	-	(70)
								- Premium received	-	-	-	-
								- Claims paid	-	-	-	-
Closing balance	(60)	(10)	(70)					Closing balance	(70)	-	-	(70)
Year 2												
Opening balance	(60)	(10)	(70)		DR	CR		Year 1				
Changes that relate to current service	-	10	10		B/S - CSM	10	P/L	10	Opening balance	(70)	-	(70)
Changes that relate to future service:								<b>Insurance revenue</b>	170	-	-	170
- Contracts initially recognised	-	-	-					Insurance service expense	-	-	(160)	(160)
- Change in estimate that results in onerous losses	-	-	-					- Incurred claims	-	-	-	-
								- Change that relate to future service: losses on onerous contracts	-	-	-	-
- Change in estimate reflected in CSM	-	-	-					- Change that relate to future service: reversal of onerous losses	-	-	-	-
Insurance service result	-	10	10					Insurance service result	170	-	(160)	10
Insurance finance expense	-	-	-					Insurance finance expense	-	-	-	-
Cash flows	60	-	60	<i>Benefits paid less cash premium received</i>	B/S - BEL	60	Cash	(60)	Cash flows	-	-	-
								- Premium received	(100)	-	-	(100)
								- Claims paid	-	-	160	160
Closing balance	-	-	-					Closing balance	-	-	-	-