STAFF PAPER

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Project	**Insurance contracts**		
Paper topic	Presentation in statement of comprehensive income – comparison of methods		

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Paper overview

Purpose of discussion

1. The boards have tentatively decided that insurers should present premiums, claims and benefits for the period in the statement of comprehensive income.

2. The purpose of this meeting is to decide which measures of premiums and claims/benefits insurers should present for contracts accounted for using the building block approach.

Content of this paper

3. This paper:

   (a) reminds you of the different presentations considered by the boards at the June 2012 education session, ie the summarised margin, earned premium, written premium and premium due presentations (paragraphs 10-56);

   (b) summarises feedback received since the June 2012 education session from:

      (i) members of the Insurance Working Group (paragraphs 57-65); and

      (ii) other users whom we have consulted individually (paragraphs 66-73).

Staff conclusions and recommendations

4. The staff recognise that each of the methods of measuring premiums and claims has advantages and disadvantages.

5. On balance, the IASB staff recommend the earned premium presentation, whereby premiums are allocated to periods in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and claims are presented when incurred.

6. On balance, the majority of the FASB staff recommend the premium due presentation, whereby premiums are presented when due and an expense representing the claims, benefits and margins associated with these premiums is presented at the same time.

Previous discussions

Present premiums, claims and benefits

7. The IASB exposure draft, *Insurance Contracts*, and FASB discussion paper, *Preliminary Views on Insurance Contracts*, proposed that, for contracts accounted for using the building block approach, an insurer should present only summarised margin information in the statement of comprehensive income. At their October 2011 meeting, the boards tentatively decided that an insurer should instead present premiums, claims and benefits, and the gross underwriting margin, in the statement of comprehensive income.

Exclude investment components

8. At their May 2012 meeting, the boards tentatively decided that the measures of premiums, claims and benefits presented in the statement of comprehensive income should exclude receipts and payments of investment components[1]. In other words, the premiums and claims would include only the amounts relating to insurance coverage and other services provided. The total premiums presented in the statement of comprehensive income over the duration of a contract would then be consistent with the amounts presented as revenue by other entities that provide services to customers. This paper refers to the premium measure that excludes the investment component as the 'insurance contract revenue'.

1 The boards have tentatively defined the investment component as the amount that the insurer is obligated to pay to policyholders or to their beneficiaries, regardless of whether an insured event occurs.

Compare methods

9. At an education session in June 2012, the boards considered three possible methods of allocating insurance contract revenue between periods, and the consequences of each allocation pattern for the presentation of claims and expenses. The three methods were labelled earned premium, written premium and premium due.

Reminder of the presentation methods under consideration

10. The following paragraphs remind you of the main features and consequences of the three presentation methods discussed at the June 2012 education session, and how they differ from the summarised margin presentation proposed in the IASB exposure draft.

Summarised margin presentation

11. The IASB exposure draft proposed that insurers applying the building block approach should adopt a summarised margin presentation in the statement of comprehensive income. The summarised margin presentation separately presents the main sources of profit and loss arising from the change in the building block liability:

Table 1 SUMMARISED MARGIN PRESENTATION

	Currency units
Change in risk adjustment (IASB only)	A
Release of residual or single margin	B
Underwriting margin	A+B
Experience adjustments—differences between expected cash flows[2] (as originally estimated, C, adding or deducting any changes in estimates recognised in profit or loss in previous periods, D and actual cash flows, E, for the period.)	(C ± D) - E
Changes in estimates of future cash flows (if recognised immediately[3] in profit or loss)	± F
Losses on initial recognition of insurance contracts	-G
Gross underwriting margin[4]	A + B + C ± D – E ± F - G
Investment income	I
Interest accreted on insurance contract liability	-J
Profit	K
Components of other comprehensive income[5]	± L
Total comprehensive income	M

2 This amount includes all of the cash flows in the measure of the insurance contract liability—including premiums, claims, benefits, acquisition costs and contract expenses.

3 The IASB has tentatively decided that some changes in estimates of future cash flows would not be recognised immediately in profit or loss. These changes in estimate would instead be offset against the residual margin and recognised in profit or loss in a future period when the adjusted residual margin is released.

4 The IASB exposure draft did not propose a requirement to present the gross underwriting margin. We have included it in this table to facilitate comparison with other presentations later in this paper.

5 The components of other comprehensive income include the effects of any changes in discount rates in the period and the unwinding of the effects of any previous changes in discount rates.

The three premium presentations – overview of similarities and differences

12. The boards have tentatively decided to require insurers to apply a 'premium' presentation instead of a summarised margin presentation.

13. The three premium presentation methods discussed in this paper have some features in common. In each case:

    (a) the insurer separately presents insurance premiums, claims, benefits and expenses instead of net margins and experience adjustments;

    (b) the insurance premiums presented over the duration of a contract equal the insurance contract revenue, ie the total premiums receivable for insurance coverage and other services (subject to possible adjustments for the time value of money); and

    (c) the costs (claims, benefits, acquisition costs, other expenses) presented over the duration of a contract equal to the total amounts incurred (subject to possible adjustments for the time value of money).

14. However, the three presentation methods differ in two respects.

    (a) they differ in the way in which they allocate the total insurance contract revenue and costs *between periods*; and

    (b) they may differ in their treatment of the time value of money. The written premium and premium due presentation methods could be developed to present the effects of the time value of money in different ways. The alternatives are discussed in the description of each method.

15. The net profit recognised in each period is determined by reference to elements of the change in the insurance contract assets and liabilities measured using the building block approach. *It is unaffected by the method prescribed for allocating insurance contract revenue and costs.* In other words, although the amounts presented as premiums for the period differ, there are compensating differences in the amounts presented as expenses. The differences are discussed further in paragraphs 37-42 (for written premiums) and 46-54 (for premiums due).

16. Any of the three premium presentation methods could be accompanied by a requirement to disclose the sources of the profit, ie the amounts presented applying a summarised margin approach (underwriting margin, experience adjustments, changes in estimates etc). Users have told us they would find this information useful.

17. Any of the three premium presentation methods could be accompanied by requirements to reconcile the premiums presented in the statement of comprehensive income to gross activity measures that include investment components, such as total premiums received, receivable or written in the period. Users have told us that they find various gross activity measures useful.

18. This paper suggests types of disclosure that might accompany each of the different premium presentation methods. However it does not ask for any decisions about disclosures—the staff will return to these after the boards have tentatively approved one of the presentation methods.

Earned premium presentation

Overview

19. The earned premium presentation:

    (a) aims to allocate insurance contract revenue to each period in proportion to the relative value of the insurance coverage and other services expected to be provided in that period (see paragraphs 21-26);

    (b) presents claims and benefits as expenses when incurred (see paragraphs 27-28);

    (c) presents non-claims fulfilment costs as expenses when the costs themselves, or the claims to which they relate, are incurred (subject to approval by the boards—see Agenda Paper 2B/90B for this meeting); and

    (d) presents acquisition costs over time, allocating them in a way that is consistent with the allocation of the single/residual margin (subject to approval by the boards—see Agenda Paper 2C/90C for this meeting).

20. The amounts of revenue, claims, benefits and expenses allocated to each period are similar to the amounts recognised for contracts accounted for using the premium allocation approach.

Allocation of insurance contract revenue

21. The earned premium presentation aims to allocate insurance contract revenue between periods applying the principles in the exposure draft *Revenue from Contracts with Customers* ('the draft Revenue standard') for performance obligations that are satisfied over time. The aim is to allocate the consideration between periods by reference to the relative value of the services provided in each period. It does this by seeking to identify the price that the insurer would have charged for coverage in that specific period if each period were charged for separately through a series of forward start contracts.

22. Because the price that would have been charged for coverage in each period cannot be observed, the earned premium presentation developed for discussion at the June 2012 meeting estimates it as the sum of:

(a) the probability-weighted claims and benefits expected to be incurred in the period;

(b) the non-claims fulfilment costs (expenses) expected to be incurred in relation to these claims and benefits (subject to approval by the boards—see Agenda Paper 2B/90B for this meeting);

(c) an allocation of expected acquisition costs (subject to approval by the boards—see Agenda Paper 2C/90C for this meeting);

(d) the risk margin relating to that period's coverage (IASB only); and

(e) the single or residual margin allocated to that period.[6]

23. The amounts identified in paragraph 22 are the components of the decrease that occurs in the liability for remaining coverage as the insurer satisfies its obligation to provide coverage. So they can be extracted from the movement in the liability for remaining coverage measured using the building block approach—they are not measured independently of the measurement of the liability[7].

6 Some people challenge whether the amounts listed in paragraph 22 provide a meaningful measure of the value of the services provided in the period. Their concerns are discussed in paragraphs 87 to 91.

7 See however paragraphs 33-34 for further discussion of the need to distinguish between the liability for remaining coverage and liability for incurred claims components of the insurance contract liability, and to track changes in estimates.

24. The earned premium presentation could be accompanied by a requirement to:

    (a) disclose the inputs to the total measure of insurance contract revenue, as listed in paragraph 22; and

    (b) cross reference (or reconcile) these inputs to the components of the change in the liability for remaining coverage in the footnote reconciliation of contract balances.

Changes in estimate and losses on initial recognition of contracts

25. The probability-weighted claims and benefits included in the measure of insurance contract revenue are the amounts originally estimated. Changes in estimates of the amount of future claims or benefits result in a change in the liability if they are recognised immediately in profit or loss[8]. However, they do not affect revenue for the current or future periods. Similarly, losses on initial recognition of an insurance contract increase the insurance contract liability without affecting revenue for the current period. Therefore, these changes—and their unwinding in later periods—are not included in revenue. They are instead presented in the same way as onerous contract expenses are presented in the premium allocation model—the recognition and subsequent unwinding of the initial losses or changes in estimate are recognised as a separate line item in the income statement. IASB Agenda Paper 2C / FASB Memo 86C for the June 2012 education session includes examples illustrating the presentation of changes in estimates.

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8 The IASB has tentatively decided that some changes in estimates of future claims and benefits would not be recognised immediately in profit or loss. Changes that reflected a *reduction* in estimates of future profitability would be offset against the residual margin and recognised when the reduced residual margin is released to income in future periods. Changes that reflected an *increase* in estimates of future profitability would be added to the residual margin and recognised when the increased residual margin is released to income.

26. There are different staff views as to whether an adjustment should be made to reallocate revenue if there is a change in the expected pattern (as opposed to amount) of future claims and benefits. If the boards decide to pursue an earned premiums presentation further, the staff will analyse this question in more detail for future discussion.

Presentation of claims and benefits

27. Claims and benefits are presented 'as incurred'. This means that the amount presented includes:

    (a) an estimate of the present value of the fulfilment cash flows for claims and benefits incurred in the period; and

    (b) changes in the estimates of the fulfilment cash flows for claims incurred in previous periods[9].

28. These amounts would be presented separately either on the face of the statement of comprehensive income or in the notes[10]. The boards could also require insurers to reconcile the claims and benefits presented in the statement of comprehensive income to movements in the insurance contract assets and liabilities.

[9] The changes in estimate included within the measure of claims incurred do not include the unwind of the discount, which is presented as a separate line item after gross underwriting margin.

[10] IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of the nature and amount of a change in an accounting estimate that has an effect in the current period.

Comparison with summarised margin gains and losses

29. Table 2 below demonstrates how the various movements in the insurance contract liability are presented in the statement of comprehensive income applying an earned premium presentation, and using the inputs set out in paragraph 22. The letters denoting each amount correspond with those in Table 1 (summarised margin presentation). They show how the amounts presented in a summarised margin presentation are reallocated in an earned premium presentation. In doing so, they demonstrate how the earned premium approach derives from the change in the liability measured using the building block approach.

Table 2— EARNED PREMIUM PRESENTATION

	Currency units
Insurance contract revenue (Expected claims and benefits C_1, expected expenses C_2, allocation of acquisition costs C_3, release of risk adjustment A and release of residual or single margin B, less the unwind of losses on initial recognition of insurance contracts H.[11])	$A+B+(C_1+C_2+C_3)-H$
Claims and benefits incurred	$-E_1$
Expenses	$-E_2$
Amortisation of acquisition costs	$-E_3$
Changes in estimates of *future* claims, benefits and expenses (if recognised immediately in profit or loss).	±F
Unwind of previous changes in estimates	±D
Losses on initial recognition of insurance contracts	-G
Unwind of previous losses on initial recognition of insurance contracts	+H
Gross underwriting margin	A + B + C ± D -E ± F - G
Investment income	I
Interest accreted on insurance contract liability	-J
Profit	**K**
Components of other comprehensive income	± L
Total comprehensive income	**M**

11 The boards could require insurers to disaggregate the total insurance contract revenue on the face of the statement of comprehensive income, to separately identify some or all of the inputs (A, B, C and H) contributing to the total. We could consider this question as part of a future discussion of disclosure requirements if the boards tentatively approve the earned premium presentation.

Additional comments

30. In Table 3, expected claims and benefits (C_1) and actual claims and benefits (E_1) are measured at their present value at the date on which the claims are incurred. These amounts implicitly include both the discounted amounts used to measure the initial contract liability and the accretion of interest (unwind of the discount) between initial recognition and the period in which the claims or expenses are incurred. If premiums are received in advance, the result is that over the life of the contract, the total measure of earned premiums is greater than the cash premiums received. The boards could require disaggregation of the total insurance contract revenue (either in the statement of comprehensive income or in the notes), separately identifying the cash amounts received and the implicit interest accretion.

31. The amounts denoted by the letters in Table 1 (summarised margin presentation) are not exactly comparable with those denoted by the same letters in Table 2 (earned premium presentation). Differences can arise because the summarised margin presentation classifies gains and losses in the same way, irrespective of whether they relate to incurred claims or remaining coverage. In contrast, the earned premium presentation classifies gains and losses relating to incurred claims differently from those relating to remaining coverage. Consequently, timing differences between claims being incurred and being paid would lead to some amounts being classified differently. For example, an increase in an estimate of the amount required to settle a previously incurred claim would be presented as a change in estimate of future cash flows (F) applying a summarised margin approach. But it would be presented as an adjustment to incurred claims (E) in the earned premium presentation.

32. The last four line items contributing to the gross underwriting margin (ie the line items relating to changes in estimates, initial losses and their reversal) are the four amounts that in combination are analogous to the ‘change in additional liabilities for onerous contracts’ line item proposed for the premium allocation approach. (For the premium allocation approach, changes in estimate, and their reversal, for the liability for remaining coverage, are recognised only if they result in the contract being onerous.) If the boards prescribed an earned premium presentation for both the building block and premium allocation approaches, they could align the presentation requirements for changes in estimate and initial losses—ie for both approaches, the boards could require the four components to be combined or presented separately on the face of the balance sheet or in the footnotes.

33. The earned premium presentation allocates insurance contract revenue over the coverage period by reference to the reductions in the liability for remaining coverage that arise as coverage is provided, ie the reductions in the expected future claims, the release of risk relating to remaining coverage and the release of the single or residual margin. To identify these changes, it is necessary to separate the total liability measured using the building block approach into two components – the component relating to incurred claims and the component relating to remaining coverage. However, insurers typically have the information they need to separate the future cash flows. Furthermore, for many of the contracts to which the building block approach would be applied—such as annuity and life insurance contracts—the risk adjustment or single margin attributable to the incurred claims liability might be immaterial.

34. More significantly, an earned premium presentation also requires the insurer to split the most recent estimates of expected claims and benefits for the period, to separate the original estimates (labelled 'C' in Tables 1 and 2) from any later changes recognised in profit or loss in previous periods (labelled 'D' in Tables 1 and 2). It also requires insurers to track the unwinding (H) of any losses that arise on initial recognition of insurance contracts—these losses unwind as the claims are incurred. None of the other presentations discussed in this paper requires tracking of:

(a) the historical development of the most recent estimates to separate the initial estimates from later revisions, or

(b) the unwind of any losses that had previously been recognised on initial recognition of contracts.

Such a requirement might require insurers to maintain some form of memo account, which could add significant operational complexity.

Simple illustration

35. The board papers for the June 2012 education session illustrated the earned premium presentation using a very simple example. This example is reproduced below. It includes a risk adjustment as proposed in the IASB exposure draft. The FASB proposals would exclude the risk adjustment, with all of the difference between the premiums and claims and benefits being included in the single margin.

Table 3 — SIMPLE ILLUSTRATION OF EARNED PREMIUM PRESENTATION

Assumptions:

- Portfolio of 3-year contracts incepted at the start of period 1.
- time value of money immaterial
- no investment component, acquisition costs, expenses, changes in estimates or experience adjustments, all claims and benefits paid immediately
- expected cash flow and margin release pattern as presented in table below.

Expected cash flows	**Period 1**	**Period 2**	**Period 3**	**Total**
Premiums received	420	400	380	1,200
Expected claims and benefits	-200	-350	-500	-1,050
Fulfilment cash flows	220	50	-120	150
Release of risk adjustment	32	30	28	90
Release of residual/single margin	23	19	18	60
Underwriting margin	**55**	**49**	**46**	**150**

Earned premium presentation	**Period 1**	**Period 2**	**Period 3**	**Total**
Insurance contract revenue*	255	399	546	1,200
Actual claims and benefits (amounts incurred)	-200	-350	-500	-1,050
Underwriting margin	**55**	**49**	**46**	**150**

* The insurance contract revenue is the sum of the expected claims and benefits, change in risk margin and release of residual or single margin for the period.

Written premium presentation

Overview

36. The written premium presentation allocates insurance contract revenue and costs to the periods in which the contracts are initially recognised (written). This presentation provides information about new business, such as premium written (which represents the level of new business written during the period) and claims expense (which represents the amount of obligation the insurer has accepted in exchange for the consideration).

37. In addition to the margin(s) released to profit in the period, the insurer presents in the statement of comprehensive income:

    (a) *as premium income*—the expected present value of the rights that the insurer receives when contracts are written, ie the total insurance contract revenue expected to be received for contracts written in the period. This amount includes all inflows (excluding consideration allocated to any investment components), over the entire life of those contracts, included in the initial measure of the insurance contract liability.

    (b) *as expenses*—the expected present value of the obligations the insurer assumes for future expenses and margins associated with contracts written in the period, measured consistently with the initial measurement of the liability in the statement of financial position. The amounts presented include:

        (i) the expected outflows (excluding the return of any investment components); and

        (ii) the risk adjustment (IASB only); and

        (iii) the single or residual margin.

38. The income and expenses listed in paragraph 37(a) and 37(b) net to zero, or if there is a loss on the initial recognition of the contract, to the amount of that loss.

39. The expenses listed in paragraph 37(b) can be presented as a single line item ('change in liability for contracts written in the period') or as separate line items for each building block component. Either way, the boards could require insurers to reconcile (by footnote disclosure) the amounts presented in the statement of comprehensive income to the amounts disclosed in the reconciliation of contract balances.

Simple example

40. The example included in the papers for the June 2012 education session applied the second of these approaches, ie separating the expenses into their building block components. This example, which uses the same fact pattern as is set out in Table 3, is reproduced below:

Table 4 — SIMPLE ILLUSTRATION OF WRITTEN PREMIUM PRESENTATION

	Period 1	Period 2	Period 3	Total
Written premiums*	1,200	0	0	1200
Claims and benefits*	-1,050	0	0	-1,050
Change in risk adjustment				
- Increase for contracts written*	-90			-90
- Release of risk adjustment	32	30	28	90
Change in residual/single margin				
- Increase for contracts written*	-60			-60
- Release of margin	23	19	18	60
Underwriting margin	**55**	**49**	**46**	**150**

* These amounts sum to zero. (If a loss had been recognised on initial recognition, the asterisked amounts would sum to the amount of loss recognised.)

41. The boards could permit or require insurers to combine some of these line items.

Experience adjustments and changes in estimate

42. Any subsequent experience adjustments or changes in estimates of future cash flows are presented as adjustments to the written premiums or claims, benefits and expenses presented in the subsequent periods. The boards could require insurers to separately identify the initial estimates and subsequent adjustments, either in the statement of comprehensive income or in the notes.

Adjustments for the time value of money

43. The premiums and claims initially presented are measured at their present values on initial recognition of the contracts. Applying the building block approach, the initial discount is subsequently unwound by accreting interest on the liability. The accreted interest is released to net income as coverage is provided.

44. The written premium presentation could be developed to present the effects of the time value of money in different ways. Accordingly, if the boards tentatively decide to specify a written premium presentation, they will need to consider whether the expected premiums, claims and expenses presented in the statement of comprehensive income line items should be adjusted for the time value of money subsequent to the premiums written dates. In subsequent periods, such accretion could either be added to the same line as the amounts recognized on the premium written dates or be disaggregated as a separate line item (e.g., interest accretion on premium written). Adding the accretion to the amounts recorded on the premiums written dates would have the effect of changing the measurement date for the respective line item (at least as it relates to time value). For example, adding accretion to the claims line item for the unwinding of the discount up through the date claims are incurred would result in claims being measured in the statement of comprehensive income at their present value on the loss occurrence date.

45. The boards could consider these alternatives further at a future meeting if they tentatively approve the written premium presentation at this meeting. The staff could prepare examples to illustrate the alternatives and their consequences.

Premium due presentation

Overview

46. The third premium presentation method considered by the boards allocates the total contract revenue to the periods in which it is due, ie invoiced or receivable, and at which time the premiums become unconditionally due to the insurer. It is used by many insurers at present that apply a long-duration model as a method to recognize premium in the statement of comprehensive income.

47. When each premium becomes unconditionally due, it is presented as income in the profit and loss account. At the same time, an expense is presented for the same amount (or for a larger amount if the contract is onerous). This expense can be presented as a single line item ‘change in liability’. Or it can be allocated across the various components of the building block liability: the expected future claims and expenses, the risk adjustment (IASB only) and the single or residual margin. The allocation could be based on the expected ratios for the contract as a whole. So, for example, if total claims are expected to be 80% of total premiums, an amount equal to 80% of the premiums due for the period is presented as claims for the period.

48. The insurer additionally presents the amounts that are charged or credited to the statement of comprehensive income applying the building block approach, for example the release of the risk adjustment (IASB only) and the release of the single or residual margin, measured in accordance with the board’s tentative decisions regarding the release of these items.

Simple example

49. The example included in the papers for the June 2012 education session applied the second of these approaches, dividing the total 'change in insurance contract liability' into its components. This example, which uses the same fact pattern as is set out in Table 3, is reproduced below:

Table 5 — SIMPLE ILLUSTRATION OF PREMIUM DUE PRESENTATION

	Period 1	Period 2	Period 3	Total
Premiums due*	420.0	400.0	380.0	1200.0
Claims and benefits*	-367.5	-350.0	-332.5	-1050.0
Change in risk adjustment				
Increase in risk adjustment*	-31.5	-30.0	-28.5	-90.0
Release of risk adjustment	32.0	30.0	28.0	90.0
Change in residual margin				
Increase in residual margin*	-21.0	-20.0	-19.0	-60.0
Release of residual margin	23.0	19.0	18.0	60.0
Underwriting margin	**55.0**	**49.0**	**46.0**	**150.0**

* These amounts sum to zero. (If a loss had been recognised on initial recognition, the asterisked amounts in the first period would sum to the amount of loss recognised.)

50. The total claims attributable to the premiums due can be estimated by allocating the total expected claims for the contract using the expected loss ratio for the contract as a whole. The expected loss ratio in this example is cu1,050/cu1,200 = 87.5%. Hence in each period, the claims presented for the period are 87.5% of the premiums due for the period. For example, in period 1, the premiums due are cu420, so the claims and benefits are 87.5% x cu420 = cu367.5.

51. The same ratio-based approach can be used to apportion increases in liability to the risk adjustment (IASB only). The total risk adjustment for the contract is 7.5% of premiums. Therefore, 7.5% of each premium due is matched by an 'increase in risk adjustment' expense. The increase in the single or residual margin can then be measured as the difference between the amount presented as claims and expenses (and increase in risk adjustment if applicable) and the amount of premium due.

52. Any experience adjustments are added to or deducted from the amounts initially allocated to each period in the period in which they occur.

53. Changes in estimates of future claims and benefits that are recognised immediately in profit or loss are presented as adjustments to the claims and benefits presented for the period.

54. The IASB has tentatively decided that some changes in estimates of future claims and benefits should not be recognised immediately in profit or loss, but should instead be offset against (or added to) the residual margin. If the 'change in liability' expenses are to be disaggregated as they are shown in Table 5 above, the allocated expenses could be presented by adjusting both the claims/benefits line and the 'increase in residual margin' line by compensating amounts in the period in which the change in estimate occurs.

Adjustments for the time value of money

55. Applying a premiums due presentation, premiums and claims initially presented are measured at their present values on each of the premium due dates of contracts. Like the written premium presentation, the premiums due presentation could be developed to present the effects of the time value of money in different ways. Accordingly, if the boards tentatively decide to specify a premium due presentation, they will need to consider whether the expected premiums, claims

and expenses statement of comprehensive income line items should be adjusted for the time value of money subsequent to the initial inclusion of these amounts in the statement of comprehensive income. In subsequent periods, such accretion could either be added to the same line as the amounts recognized on the premium due dates or be disaggregated as a separate line item. For example, the actual premium due amounts could be presented separately from the interest accretion on these amounts, allowing users to distinguish between the actual consideration received and the financing component.

56. The boards could consider these alternatives further at a future meeting if they tentatively approve the premium due presentation at this meeting.

Feedback received since June education session

Insurance working group

57. We sought feedback on presentation alternatives at the meeting of the Insurance Working Group on 25 and 26 June 2012. We have not previously discussed the earned premium presentation with the Working Group. Therefore we started the session with an explanation of the method, before asking group members for their initial views.

Insurers

58. Almost all of the Working Group members representing insurers thought that it was important to have a top line premium number in the statement of comprehensive income. Some of them acknowledged that the number might not be especially useful to insurance sector specialists, who relied more on the disaggregated information in the notes to the financial statements. But a ‘headline’ number was important for reporting to non-specialist users.

59. Almost all of the insurers expressed opposition to the earned premium presentation for contracts accounted for using the building block approach. One asked the boards not to invent a new measure—and instead to select any one of the many existing measures required by regulators or analysts. Most others favoured a premium due presentation and most of the discussion time was spent discussing their reasons. The reasons they gave were that:

    (a) the earned premium approach was over-engineered and would not produce information that management would find useful in running the business. It would be more complicated to apply and explain. Few users would understand it. Premium due was simpler to apply and had been widely used for life contracts in practice without significant issues arising.

    (b) the lack of comparability between a premium due presentation and the revenue amounts reported by companies in other sectors was not a significant disadvantage. Investors did not compare the results of insurers with those of entities outside the financial services sector.

    (c) the application of general revenue recognition principles was less important for insurers than for companies in other sectors. For companies in other sectors, the measure of revenue directly affected the measure of profit. In contrast, insurers' profits would be measured by reference to the release of the margin from the building block liability and would be independent of the amount presented as revenue.

    (d) the purpose of a top line number was to measure growth and provide a denominator for claims and expenses ratios. A measure based on premiums due was sufficient for that purpose.

    (e) the amount of premiums due in a period was an objective, tangible amount, that was useful as an anchor in facilitating analysis of these ratios.

60. A few insurers expressed different views. One supported the summarised margin presentation. He did not think a revenue indicator would be useful. In his view, the most meaningful measures of activity and growth were those that measured total premiums, including deposits. These amounts would be in the notes.

61. Another insurer, who said that he would be applying the building block approach to some (long-duration) *non-life* contracts, supported the earned premium approach because it presented a measure of revenue that was comparable with that for contracts accounted for using the premium allocation approach. It was also important to get loss, expense and combined ratios right.

Users

62. There were three users at the meeting—all insurance sector analysts. They had different views.

63. One user said that he preferred the summarised margin presentation. He viewed insurers primarily as asset gatherers, so deposit-type accounting made most sense to him. He was interested in changes in 'assets under management' and new business figures, so he found information about gross inflows and the present value of future premiums useful. However, he did not expect to find these amounts in the statement of comprehensive income. He was happy to look for them in the notes. He added that, if there were to be a revenue line in the statement of comprehensive income, it should be the amount that was driving profit, ie earned premium.

64. The other two users said that they would prefer to see some sort of 'top line' measure in the statement of comprehensive income—not having one was too radical and alien to the way people thought about businesses. One of these users noted that insurers were not solely asset gatherers—insurance was a service and this service should be reflected as revenue. He found the earned premium presentation too difficult to understand and too difficult to reconcile the underwriting result to the margin releases. He supported the premiums due presentation because the revenue number was closest to cash flows and gave a business success indicator on an annual basis (e.g., helped indicate the profits that could be expected to continue into the future based on the premium volume). However, he thought that it was very important to define a top line number: if it came to a choice between an earned premium and a summarised margin presentation, he would prefer earned premium.

65. The third user thought that people would find the earned premium presentation easier to understand as they became more familiar with it. He had listened three times to IASB and FASB staff explaining it, and only after the third explanation had he sensed that he got it. Now that he got it, he did not think it was complex. It was new and different but not complex. If insurers started disclosing it, analysts would find it a useful indicator in time. All three premium amounts discussed by the boards were interesting data points, and analysts would be interested in all of them. However, only the earned premium measure came close to being the right number in revenue recognition terms. The summarised margin information was also important because it captured the ways in which insurers made their profits—that information should not be lost.

Feedback from other users

FASB outreach

66. The FASB staff performed outreach separately with nine financial statement users, and two rating agencies. All of these users and rating agencies strongly supported excluding deposit components from the measure of premium reported in the statement of comprehensive income but had mixed views on how to measure the consideration that should be excluded[12]. There were mixed feelings expressed concerning the premiums earned approach. Roughly half of the users expressed strong opposition to the premiums earned approach and expressed support for the premiums due approach. The other half of users were accepting of but neutral towards the premiums earned approach (ie, they didn’t strongly support it).

67. Users with a neutral to positive reaction to the earned premiums approach stated that this recognition pattern would be more reflective of the service provided. One user stated that, although he doesn’t think the approach works very well for relatively new companies or companies in decline, it nevertheless appears to be the conceptually correct answer. Another user suggested that a premiums earned approach be used, but that a level recognition of premiums should take place over the contract period (i.e., the estimated timing and amount of future claims should not determine how premium is earned). This user reasoned that the insurance company stands equally ready to pay at any given point throughout the contract period regardless of the probability of an insured event taking place.

[12] This feedback was discussed in the FASB Board meeting on October 3, 2012 when discussing “Separation of investment components from the insurance contract – measurement of the aggregate premium for the insurance component”.

68. Users with a negative reaction to the earned premiums approach observed that it can result in recognition that is very back-loaded and disconnected from the actual cash flows. These individuals were more comfortable with the premiums due approach primarily because they favor a recognition pattern that reflects cash receipts. Some of these users dislike the premiums earned approach because they consider it to be over-engineered. One of these users admitted that, theoretically, premiums earned may be the right answer; however, in their opinion it is simply not a practical model to recognize premium. Finally, another user was troubled that, depending on how the boards develop the earned premium presentation, if mortality rates were to improve, recognition of premiums might be delayed[13]. He views a delay in presenting revenue because of such a positive economic impact to be counterintuitive.

69. One user suggested presentation of both premiums due (as the top line) and earned premium with a contra revenue account between these reflecting the differences between the premiums due and premiums earned approaches. This presentation would result in a net revenue that matches the premiums earned presentation. Such an approach would be similar to how many non-life insurers today present both premium written and premium earned.

IASB outreach

70. Eight users (including one of the IASB's Insurance Working Group members) from Europe, North America and Asia accepted an invitation to discuss premium presentation with IASB staff. This section highlights the main points arising from the discussions.

[13] The staff will consider whether the premium earned pattern should be adjusted for changes in estimates of expected pattern of future claims and benefits in a future paper if the boards tentatively approve the earned premium presentation.

71. The first point we noted was strong and widespread support for excluding deposit components from the measure of premium reported in the statement of comprehensive income. We did not specifically ask any of the users for their views on this matter because we were focusing on how to allocate the premium that remains after the deposit component has been excluded. However, five of the eight spontaneously commented on the matter, all expressing a view that it was important for insurers to exclude deposits from the income statement. Some specifically referred to the need for comparability with the banking industry.

72. Secondly, we noted slight differences in focus between insurance sector specialists and other users. In addition to the Insurance Working Group member, four of those to whom we spoke are currently insurance sector specialists. They all said that they used premium information as a measure of activity or growth but, when questioned about the type of premium information, said that they wanted measures that include deposit components and would expect to find this information in the notes to the financial statements, not on the face of the statement of comprehensive income. All four seemed most interested in being able to disaggregate the sources of earnings / drivers of profit so that they could separately identify the margins from the various sources, market effects and variances from expectations. Two (a credit rating analyst in Asia and a sell-side analyst in Europe) expressed very little interest in any form of premium number in the income statement so struggled to identify the one they would prefer. The third (a buy-side analyst in North America) leaned towards the premium due presentation on grounds of simplicity. The fourth (a former sell-side analyst in Europe) expressed a tentative preference for the earned premium presentation. He thought that, if the statement of comprehensive income gave users a measure of risk covered, they might make use of it more than they use the premium due number they receive at present. However, he also expressed concern that the benefits might not outweigh the additional costs.

73. The other three users to whom we spoke are currently in roles that require them to evaluate companies in a broad range of sectors. One of them (based in North America) had similar views to those of the insurance sector specialists—finding it difficult to identify uses for any of the premium measures being considered—though concluding that there might be a way to derive some useful information from a premium due measure. The other two expressed support for presenting revenue information for insurers in the same way as it would be presented for other industries. One (a buy-side analyst in Europe) concluded that this would mean applying a premium earned presentation. The other (a sell-side analyst in Europe) did not specifically favour any of the alternative premium measures, but thought the earned premium presentation would be understandable in combination with disclosures.

74. None of the users supported a written premium presentation.

Staff analysis

75. In this section, the staff

    (a) summarise their views of the main advantages and disadvantages of the alternative presentations discussed in this paper;

    (b) discuss some of the advantages and disadvantages in more detail; and

    (c) re-consider the merits of the summarised margin presentation in the light of the disadvantages of each of the premium presentations.

Summary

Earned premium presentation

76. The advantages of the earned premium presentation are that:

    (a) it presents amounts that are consistent with commonly understood notions of revenue and expenses (see paragraphs 83-86);

    (b) it presents amounts for the building block approach that are broadly consistent with the amounts presented for the premium allocation approach (paragraphs 98-100); and

    (c) it provides a link between the statement of comprehensive income and the statement of financial position (paragraph 97).

77. The main disadvantages of the earned premium presentation are that :

    (a) measuring earned premiums is inherently challenging for some types of contract, and those challenges can lead to operational complexity (paragraph 101); and

    (b) the information provided by an earned premium presentation differs from the information that is available to users at present. It would be unfamiliar to them, and might not be sufficiently more useful than the information provided by alternative presentations to justify the additional complexity (see paragraphs 92-96).

78. Some staff members are also concerned that the method of measuring earned premiums developed in this paper (based on the expected pattern of claims and benefits) might not be a faithful representation of the value of the services provided in the period(paragraphs 87-91).

Written premium presentation

79. The advantages of the written premium presentation are that:

(a) it provides useful information about the new business in the period, including the expected present value of the rights received and of the obligations assumed (paragraphs 92-96);

(b) like the premium due presentation, it separately presents the sources of profit for the period, ie change in risk adjustment and release of residual or single margin. This information would be available only in the footnotes applying an earned premium presentation;

(c) it provides a clear link between the statement of comprehensive income and the statement of financial position (paragraph 97);

(d) it is likely to be the least complex of the three presentation methods to apply.

80. The disadvantages are that:

(a) the premiums and expenses presented in the statement of comprehensive income for the building block approach are not consistent with those presented for the premium allocation approach. Neither are they measured applying commonly understood notions of revenue and expenses. The revenue is recognised before the insurer has performed a service and expenses are recognised before they have been incurred.

(b) unlike the other two premium presentations, both the income and expenses are measured using estimates of future cash flows, which are uncertain and subject to future revision[14]. In contrast:

[14] Any changes in assumptions regarding the consideration that doesn't affect the measurement of the investment component will generally affect the amount of premium recognized. For example, changes in

(i) in the premium due presentation, the income is anchored at the tangible premiums due for the period; and

(ii) in the earned premium presentation, the claims and expenses are anchored at the claims incurred in the period. Although the amounts required to settle incurred claims might be uncertain and must be estimated, the uncertainty is typically less than that in the estimates at the start of the contract.

Premium due presentation

81. The advantages of the premium due presentation are that:

(a) it provides information about the additional premiums for insurance coverage and other services to which the insurer has an unconditional right (paragraphs 92-96).

(b) like the premium written presentation, it separately presents the sources of profit for the period, ie change in risk adjustment and release of residual or single margin. This information would be available only in the footnotes applying an earned premium presentation.

(c) the premiums due in the period are subject to less measurement uncertainty than the premiums written. Consequently the premium measure is an objective, tangible measure of new business, that is useful as an anchor in facilitating analysis of ratios.

(d) the premium due measure provides a clear link between the statement of comprehensive income and statement of financial position (paragraph 97).

lapse rates, the amount of death benefits, the timing of the insured event, changes in the amount of interest credited and fees charged to the investment component, all will have an impact on the amount of premium recognized in the statement of comprehensive income.

82. The disadvantages of the premium due presentation are that:

(a) the premiums and expenses presented in the statement of comprehensive income for the building block approach are not consistent with those presented for the premium allocation approach, although for most contracts, the differences would not be material (see paragraph 100). Neither are they measured applying commonly understood notions of revenue and expenses. The revenue would often be recognised before the insurer has performed the corresponding service and expenses would similarly often be recognised before they have been incurred.

(b) the amounts presented as insurance contract revenue and claims, benefits and expenses vary depending on the timing of when premium is due based on the contract. For example, if a premium is paid at the start of the contract, all revenue[15] and expenses are presented in the period of initial recognition. If the premium is instead paid annually, premium revenue and expenses are presented over the duration of the contract. Some users have told us that they make a rough adjustment to the premium due measures reported today, spreading the premiums for single premium contracts over a ten year period.

[15] Consideration related to the margin (or currently referred to under US GAAP as unearned revenue liability) is recognized in accordance with the boards' tentative decisions on recognition of the single/residual margins.

More detailed analysis of some of the advantages and disadvantages

Commonly understood notions of revenue and expenses

83. Only the earned premium presentation seeks to measure insurance contract revenue applying general revenue recognition principles—with revenue being recognised in proportion to the consideration received for services provided in the period, and costs being recognised as incurred. The written premium and premium due presentations present revenue before services have been transferred and expenses before costs have been incurred.

84. Members of the Insurance Working Group reported that the premium amount presented on the face of the statement of comprehensive income is useful as a headline revenue number. Headline revenue numbers are sometimes reported and quoted without a detailed explanation of the basis on which they have been calculated. People with a general knowledge of financial reporting may assume that the amounts reported are consistent with general revenue recognition principles. They could be misled if this is not the case.

85. Although sector specialist users might not compare the statement of comprehensive incomes of insurers with those of entities outside the financial services sector, the headline revenue numbers are compared for more general purposes. Even superficial comparisons can affect general perceptions of a company. For example, the business magazine *Fortune* publishes each year a list ranking the 500 largest companies in the US and globally. The rankings are widely publicised and commented upon. The companies are ranked in order of the gross revenue reported in their most recent financial statements.

86. In times of economic growth (the norm in most economies), insurance contract revenue measured using the premium due or written premium presentations is likely to be greater than that measured using revenue recognition principles as proposed in the draft Revenue standard. In times of economic strife, insurance contract revenue measured using the premium due or written premium presentation is likely to be lower than that measured using revenue recognition principles as proposed in the draft Revenue standard.

Interpretation of revenue recognition principles

87. The method of measuring earned premiums developed in this paper presumes that the majority of the value in the services an insurer provides each period to its policyholders is directly proportional to the probability-weighted estimate of claims and benefits to be incurred in that period.

88. Some constituents have communicated that they believe that the relative value to the policyholder of the services an insurer provides each period might rather be a function of the insurer's obligation to stand ready to cover claims during the period. For a contract that provides level insurance benefits over the life of the contract (i.e., the occurrence of an insured event results in the same benefit payment regardless of which period it occurs in), these constituents believe that premium should be earned to reflect that. Many life insurance contacts with an investment component provide for a fixed death benefit and, accordingly, insurance protection for only the excess of the death benefit over the account value. For these contracts, they argue the premium should be front-loaded to reflect the higher *net amount at risk* in the earlier periods (assuming expectations of a growing account value), but not the lower probability of a claim in those earlier periods[16].

[16] The earned premium presentation described in this paper would also result in the premium being front-loaded for a contract with a growing investment component and paying a fixed overall benefit. However, the measure of the premium would also take into account the probability of an insured event occurring in each period, which for life insurance would have an offsetting decelerating effect.

89. The concept of net amount at risk on life insurance policies is sometimes also calculated as the difference between the face value of a contract (i.e., death benefits) and the expected losses (e.g., the recorded loss reserves which may be the accumulated policyholder account value or premiums received depending on the type of contract). Thus even for a contract without an investment component (e.g., 30 year level premium term insurance), the consequences of an insured event are more severe for the insurer and more beneficial for the policyholder in the earlier years of the contract. Although the death benefit might be the same throughout the contract, earlier deaths result in less premium receipts for the insurer and less investment income. For this reason some constituents believe that the premium earned pattern should fully reflect a net amount at risk that takes into account the value of premiums received before a loss occurs.

90. Others argue that a policyholder receives significant value in its right to continued insurability under an insurance contract, especially those of longer durations. For example, a long duration life or health insurance contract may provide comfort to the policyholder that they will continue to be insured at a predetermined price even if their health should deteriorate. The earned premium presentation developed in this paper does not fully reflect this additional value to the policyholder in the determination of the pattern to earn premium over. If such guaranteed insurability or renewal rights were factored in, it would result in a further deferral of premium as the value of these “options” would likely be greatest in the later years of a contract (although the value is also a function of the likelihood of these options being able to be exercised, which precludes a discontinuation of coverage which is greatest in the early years of the contract). Nevertheless, some believe there should be some value ascribed to this guarantee that would be recognized over time.

91. While constituents could not suggest any better alternatives, the some users and preparers with whom the staff have discussed the earned premium presentation have indicated that they did not believe that the service was just the insurer's obligation to pay a claim when the insured event occurs and therefore recognizing the majority, if not all, the premium on the basis of the expected claims and benefits would not reflect the service the insurer provides throughout the duration of the coverage. These constituents recognize that for a large stable book of business that have been written for a number of years, the results may be essentially straight line, however, they think that for new or changing portfolios (either growing or shrinking) the results could be skewed.

Usefulness of information

92. Premium measures are viewed as being a helpful indicator of activity and growth. However, users have indicated that they need a variety of different measures—some including deposit components—to obtain all the information they need. Each of the three premium measures considered in this paper would contribute to the total overall picture of activity in the period:

(a) the earned premium gives a measure of the consideration received for coverage provided in the period;

(b) the written premium gives a measure of new business in the period. It gives an earlier indication of changes in economic conditions than the premium earned or premium due measures. (It is not solely a measure of new contracts initially recognised in the period—it also includes adjustments to estimates of the total premiums on contracts initially recognised in previous periods—but the total could be split in the footnotes so that the new contracts in the period are separately identified.)

(c) the premium due measures the new amounts to which the insurer has become entitled.

93. The usefulness of the information depends not only on the usefulness of the premiums measures but also on the usefulness of the amounts reported as expenses for the period. The earned premium presentation presents information about the expenses actually incurred in the period. In contrast, the premium due presentation illustrated in paragraphs 49-54 presents an allocation of the total expected expenses and then subsequently recognizes the expenses when incurred and a reduction in the previously established liability.

94. The written premium and premium due presentations separately present the drivers of profit—ie the change in the risk adjustment (IASB only) and release of single or residual margin—in the statement of comprehensive income. The earned premium presentation gives this information only in the footnotes.

95. The premium due presentation is the only one that provides a measure of insurance contract revenue that is subject to little measurement uncertainty. A number of users have commented that they appreciate the stable revenue number for the purposes of analysing various ratios. The stability of the revenue denominator helps them isolate the cause of changes without requiring them to determine whether it is a volatile and subjective revenue denominator that is leading to some noise or impairing the transparency of changes to the numerator.

96. However, the premium due presentation does not eliminate the measurement uncertainty from the statement of comprehensive income: the uncertainty is inherent in the net profit measured by the building block approach. The premium due presentation simply moves the uncertainty from revenue to expenses. The amounts presented as claims, benefits, expenses, increases in risk adjustment and margin are estimates of the eventual outcome.

Linkage to the statement of financial position

97. Each of the three presentation methods provides a link between the statement of comprehensive income and statement of financial performance:

(a) the earned premium presentation measures the change in the insurance contract liability that arises from the satisfaction of performance obligations;

(b) the written premium presentation presents the same amounts that are recognised in the statement of financial position on initial recognition of the contract, separately identifying the present value of the expected inflows (premiums) from the present value of the outflows (claims, benefits and expenses) and expected future underwriting margin.

(c) the premiums due presentation measures the amount by which the insurance contract liability increases when premiums are due. As premiums are due, the present value of future premiums are reduced and assuming no other changes in the assumptions, the total liability recorded in the statement of financial position increases.

Comparability between building block and premium allocation approaches

98. The earned premium presentation is the only one that presents amounts for contracts accounted for using the building block approach that are consistent with those presented for contracts accounted for using the premium allocation approach—ie with premiums being allocated in proportion to the expected pattern of benefits, and claims being presented when incurred. An advantage of this consistency is that insurers applying the building block approach to some contracts and the premium allocation approach to other contracts can meaningfully combine the results for all contracts in a single statement of comprehensive income.

99. There is an additional advantage for the IASB, which has tentatively decided to permit (rather than require) the use of the premium allocation approach for eligible contracts. The statements of comprehensive income of insurers that choose to apply the premium allocation approach are comparable with those of insurers that instead choose to apply the building block approach.

100. However, for many contracts accounted for under the premium allocation approach, the premium due in a period is likely to be similar to the premium earned. Accordingly, for these contracts the amounts of premium recognized under the premium allocation approach would generally be similar to the amounts presented using a premium due presentation.

Operational complexity

101. The main disadvantage of the earned premium presentation is its operational complexity. In particular, it requires insurers to disaggregate the most recent estimates of expected cash flows, separating the original estimates from any later changes recognised in profit or loss. It also (like the premium allocation approach) requires insurers to track the unwinding of any losses on initial recognition of insurance contracts—these losses unwind as the claims are incurred (see paragraph 34). None of the other presentations discussed in this paper requires tracking of the historical development of the most recent estimates or of the unwinding of losses on initial recognition of contracts. A requirement to track these changes might add significant operational challenges to the building block approach. In addition, some staff believe that the results may be difficult for users to understand without a significant amount of analysis and education.

102. The written premium presentation is perhaps the simplest of the premium presentations to apply.

Reconsideration of the summarised margin presentation

103. Having now had an opportunity to explore the alternative premium presentations further, the boards might wish to reconsider their previous tentative decision to require presentation of premiums and claims in the statement of comprehensive income. None of the premium approaches is ideal. In particular:

(a) the premium due and written premium presentations portray amounts that are not measured applying commonly understood notions of revenue and expenses. The revenue is presented before the insurer has performed a service and expenses are presented before they have been incurred.

(b) the earned premium presentation would impose significant additional operational complexity.

104. The alternative would be the summarised margin presentation proposed in the IASB exposure draft. Although most respondents argued in support of a premium presentation, they might have had in mind a premium presentation similar to one that they use at present, ie premium due for many contracts. If the boards reject the premium due presentation, insurers and users might be more supportive of the summarised margin presentation.

105. In support of this presentation, it could be argued that there is less need for a measure of revenue for insurance contracts accounted for using the building block approach than there is for other types of transaction:

(a) feedback from some specialist users suggests that they prefer measures of activity that give information about the total increase in assets under management, including any investment components. They do not expect to find this information in the statement of comprehensive income and will continue to rely on other activity measures reported in the notes to the accounts and elsewhere; and

(b) as one of the Insurance Working Group members pointed out, unlike other entities, insurers applying the building block approach can measure their profits, assets and liabilities without measuring revenue. (Other entities measure profits as the difference between revenue and expenses.)

106. It is also of note that the summarised margin presentation is operationally less complex than *any* of the premium presentations. Perhaps most notably, it does not require insurers to exclude the investment component from premiums to arrive at a measure of insurance contract revenue.

107. On the other hand, many of those who report, use and quote financial measures expect these measures to include a measure of activity. If the boards do not require presentation of an amount that is measured using revenue recognition principles, preparers and sell-side analysts might substitute other measures. (At present, some research reports describe as 'revenue' premium measures that are not calculated in accordance with revenue recognition principles.) Feedback we received suggest that many constituents—including specialist users—regard the summarised margin presentation as too radical.

Staff conclusions and recommendations

108. Having considered the advantages and disadvantages of each premium presentation method and the feedback from users, the staff are somewhat torn. On one hand, the staff recognise the conceptual merits of the earned premium presentation and, in particular, the benefits of presenting premiums and claims in the statement of comprehensive income in a way that is consistent with commonly understood notions of revenue and expenses. On the other hand, the staff acknowledge that the earned premium method would be more operationally challenging than the premium due or written premium methods and that premium due is a more objective, tangible measure of new business, which is useful as an anchor in facilitating analysis of various ratios.

109. Some staff members are also concerned that the method of measuring earned premiums developed in this paper (based on the expected pattern of claims and benefits) might not be a faithful representation of the value of the services provided in the period. Others disagree, taking the view that a method based on expected claims and benefits will produce reasonable estimates of the value of the services provided in the period, albeit inherently measured from the insurer's perspective rather than that of the customer.

110. Individual staff members gave greater weight to some factors than to others. On balance, the IASB staff recommend the earned premium presentation, whereas the majority of the FASB staff recommend the premium due presentation.

111. None of the staff recommend the written premium presentation. They note that this method presents measures of premiums that are neither consistent with commonly understood notions of revenue and expenses, nor reasonable approximations thereof. They further note that none of the users consulted on this matter supported the written premium presentation.

Question for the boards

Question for the boards

Do you agree that premiums and claims presented in an insurer's statement of comprehensive income should be measured:

(a) *applying a earned premium presentation*, whereby premiums are allocated to periods in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and claims are presented when incurred; or

(b) *applying a premium due presentation*, whereby premiums are presented when due and an expense representing the claims, benefits and margins associated with these premiums is presented at the same time.