



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **October 2008, London**

Project: **Insurance Contracts**

Subject: **Candidate measurement approaches – tabular comparison
(Agenda Paper 3C)**

Purpose of this paper

1. This paper aims at giving a quick overview of differences and similarities between the candidate measurement bases that are presented in agenda paper 3B. The comparison should help to easily spot differences and similarities between the candidates.
2. The table tries to capture the main features of a measurement approach, but is not intended to show every detail.

CANDIDATE MEASUREMENT APPROACHES

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>
1	Definition	The amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.	The expected present value of the cost of fulfilling the obligation to the policy holder over time.	The expected present value of the cost of fulfilling the obligation to the policy holder over time. ¹	The expected present value of the cost of fulfilling the obligation to the policy holder over time. ²	The part of the premiums for the unexpired part of the insurer's contractual obligation, subject to a liability adequacy test.
2	Scope	All insurance liabilities.	All insurance liabilities.	All insurance liabilities.	All insurance liabilities.	Only pre-claim short duration insurance liabilities.
3	Building blocks for the measurement approach	Building block approach consisting of: - future cash flows - time value of money - a margin	Building block approach consisting of: - future cash flows - time value of money - a margin	Building block approach consisting of: - future cash flows - time value of money - a margin	Building block approach consisting of: - future cash flows - time value of money - a margin	Implicit building block approach; construct of two inputs: (1) premiums and (2) the remaining contractual obligation as a proportion of the total contractual obligation
4	Inputs for estimates of cash flows					
4a	Inputs for which observable market information is available	Consistent with observed market prices.	Consistent with observed market prices.	Consistent with observed market prices.	Consistent with observed market prices.	Not applicable unless onerous.
4b	Other inputs	The entity's estimate of the estimates that other market participants would make.	The entity's own estimates.	The entity's own estimates.	The entity's own estimates.	Not applicable unless onerous.

¹ Plus an "additional margin", based on the day on difference.

² Plus a "composite margin", based on calibrating to the premium

Nr	Feature	Current Exit Value (as per DP)				Current Fulfilment Value (tentatively)		Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>		
5	Characteristics of cash flows							
5a	Cash flows that arise from the characteristics of the portfolio (portfolio-specific)	Included.	Included.	Included.	Included.		Not applicable unless onerous.	
5b	Cash flows that arise from the characteristics of the entity (entity-specific)	Excluded.	Included.	Included.	Included.		Not applicable unless onerous.	
6	Subsequent measurement of cash flows	Current estimates for all variables.	Current estimates for all variables.	Current estimates for all variables.	Current estimates for all variables.		No remeasurement unless onerous.	
7	Changes in estimates of cash flows	Effect included in profit or loss.	Effect included in profit or loss.	Effect included in profit or loss.	Effect included in profit or loss.		Included in profit or loss if contract becomes onerous.	
8	Time value of money	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.	Consistent with observable current market prices, capturing the characteristics of the liability.		Implicitly recognised.	
9	Risk margin	The compensation required by market participants for bearing risk.	The cost of bearing risk.	The cost of bearing risk.	“Composite margin”, calibrated to the premium at inception.		No explicit margin. Implicit margin at inception, as implied by the premium	
10	Service margin	The compensation required by market participants for other services.	No service margin.	Implicit in the “additional margin”.	Implicit in the “composite margin”.		No explicit margin. Implicit margin at inception, as implied by the premium	
11	Day one difference (the difference between the	Recognised in profit or loss. (DP expressed view	Recognised in profit or loss.	“Additional margin”, recognised as a separate	No difference on day one by calibrating the margin		No profit at inception. Loss at inception if	

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>
	actual margin and the required margin)	that this would not be common and significant.)		item within the insurance liabilities.	to the premium.	onerous.
11	Liability adequacy test	Not applicable.	Not applicable.	Not applicable.	Required at inception.	Required at inception and each subsequent reporting date.
12	Acquisition costs	Expensed when incurred.	Expensed when incurred.	Expensed when incurred.	Expensed when incurred.	Expensed when incurred.
13	Part of the premium expected to recover relevant acquisition costs	Recognised to income on day one.	Recognised to income on day one.	Recognised to income on day one.	Recognised to income on day one.	Recognised to income on day one. ³
14	Own credit risk	Included. (DP expressed view that this would not be significant at inception.)	Excluded (arguably implicit at inception).	Excluded (arguably implicit at inception).	Excluded (arguably implicit at inception).	Not applicable (arguably implicit at inception).
15	Structure of the performance statement	Asset and liability model aiming to provide for the probable cost of claims; present some premiums as revenue and some as deposit receipts. Use of premium and claim	Asset and liability model aiming to provide for the probable cost of claims; present premiums as revenue. Use of premium and claim presentation as well as margin	Asset and liability model aiming to provide for the probable cost of claims; present premiums as revenue. Use of premium and claim presentation as well as margin	Asset and liability model aiming to provide for the probable cost of claims; present premiums as revenue. Use of premium and claim presentation as well as margin	Deferral and matching model deferring the premium income until the exposure occurs; premiums and claims approach; present premiums as revenue.

³ In practice, the relevant acquisition costs are capitalised and amortised for this approach. Although this results in a gross presentation, the net effect for both the balance sheet and the income statement will probably be similar to expensing the acquisition costs when incurred and recognising related income on day one.

Nr	Feature	Current Exit Value (as per DP)	Current Fulfilment Value (tentatively)			Unearned premium
		<i>Candidate 1</i>	<i>Candidate 2</i>	<i>Candidate 3</i>	<i>Candidate 4</i>	<i>Candidate 5</i>
		presentation as well as margin presentation is possible.	presentation is possible.	presentation is possible.	presentation is possible.	