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Project	Insurance contracts
Topic	Residual and composite margins

Purpose of this paper

1. Agenda paper 5A explains what types of margins can occur in the various measurement candidates. This paper discusses in more detail how to treat the residual and composite margins described in agenda paper 5A. At this stage, staff does not intend to make a choice between the alternatives or to seek any other Board decisions; this will be part of future Board meetings.
2. This paper looks at the three measurement candidates discussed in agenda paper 5A, candidates 1, 3 and 4.
3. In support of this discussion (and the discussion in agenda paper 5A), this agenda paper provides an example of a life contract that shows how each candidate works. The example focuses on subsequent treatment of residual and composite margins, particularly in cases where subsequent changes in estimates occur.
4. To focus on how each candidate works for risk margins, day one differences and subsequent changes in estimates, the example has significant simplifications, for example:
 - (a) no acquisition costs [agenda paper 5C deals with this].
 - (b) the risk is spread evenly over the term of the contract.
 - (c) no own credit risk.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

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Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

5. Broadly, there are two ways to structure the performance statement: a premiums versus claims approach and a margin approach. Given the purpose of this paper, the performance statement is shown using a margin presentation. We do not intend to indicate a preference for one method or the other in this paper. At a future meeting, we will discuss the structure of the performance statement.
6. This paper furthermore does not deal with:
 - (a) disclosures about margins.
 - (b) whether other comprehensive income could be used for recognising some changes in insurance liabilities.

Subsequent measurement of margins

7. Agenda paper 5A argues that an insurer should remeasure at each reporting date those margins that are part of the definition of the measurement approach adopted. This applies to risk margins in candidates 1 and 3 and service margins in candidate 1.
8. For residual and composite margins, it is less obvious what to do for subsequent measurement:
 - (a) the deferred item of candidate 1 is a residual between the premium and the current exit price. It does not seem useful to remeasure this residual in an explicit manner because the exit price already captures every factor that could be remeasured.
 - (b) for the additional margin of candidate 3, also a residual component, it does not seem useful to explicitly remeasure a component of the liability that is a mixture of things.
 - (c) candidate 4 builds on the rationale that no subsequent information will provide better evidence of the margin. As a result, the composite margin will not be remeasured for subsequent changes; no subsequent liability adequacy test is needed because all other building block elements are remeasured. Furthermore, the composite margin is, like the residual margin of candidate 3, a blend.

9. We identify the following issues for subsequent measurement:

- (a) How to release these margins to profit or loss? [if no subsequent changes in estimates would occur]
- (b) Adjust these margins for subsequent changes in estimates? If so, should this be for some changes in cash flows or all?

Treatment if no estimates change

10. Since the residual and composite margin components mentioned in the previous paragraph are not remeasured explicitly, a mechanism needs to be defined for releasing those margins to profit or loss in subsequent reporting periods.

- (a) Current exit price works on the basis of a market participant view. IAS 39 *Financial Instruments: Recognition* requires a deferred item to be recognised in profit or loss subsequently to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. One possibility is to use that approach for release of the residual margin of candidate 1. One factor that market participants could consider is observability (ie whether inputs are observable). However, this factor will probably not be applicable for insurance contracts because most inputs are and are expected to remain unobservable. If no other obvious (market participant) factor is available, perhaps release from risk or time could be used as a default.
- (b) The residual margin of candidate 3 and the composite margin of candidate 4 are blends. Therefore it may be difficult to determine an appropriate driver for the release of these margins; if no other driver is available, perhaps release from risk could be used as a default. However, other drivers like expected benefit payments or expected claims may also be applied; we do not discuss in this paper whether the boards should prescribe a specific driver for releasing the margin if the boards select candidates 3 or 4.

11. We now describe an example based on a three-year life contract and explain how day one differences emerge for candidates 1, 3 and 4 if no further changes in estimates occur.

Background

On January 2008, Insurance Company A enters into one thousand three-year life annuity contracts [the three-year term selected to make the example easily presentable; annuity contracts usually have a long duration or are for life]. The premium for each contract is CU10,000 and is received at inception. The yearly benefits are CU3,000 for each policy and are paid at the end of each of the three years, if the policyholder is still alive then. At inception, the expected mortality rate is 4% for year one, 8% for year 2 and 16% for year 3.

Furthermore, the insurer expects to incur yearly expenses of CU500 per policy. For this example, we assume that the insurer A has superior policy maintenance and claim handling capabilities compared to other insurers; other insurers typically incur yearly expenses of CU550.

The annual investment return on assets is 5%. The discount rate is 4%.

[Numbers reported below are in thousands.]

Candidate 1 estimates a margin that is required by a market participant. This margin includes a compensation for bearing risk. For this example, we assume that the required compensation at inception is CU375. In addition, current exit value includes a service margin if market participants would typically require such a margin. For this example, we assume that the required service margin at inception is CU275.

Candidate 3 estimates the required margin using insurer A's cost of bearing risk. For this example, we assume that at inception the cost of bearing risk for insurer A is CU350.

[We selected these margin numbers so that the margin components are easily identifiable; we do not intend them to be realistic].

Application of the models

The overall margin at inception implied by the premium is CU1,051 (premium of CU10,000 less expected present value of the future cash flows of CU8,949) for a current fulfilment value. For a current exit price, the total margin is lower due to the efficiencies specific to insurer A; a market participant would consider yearly expenses of CU550 instead of CU500. Thus the premium implies an overall margin of CU912 (premium of CU10,000 less expected present value of the future cash flows of CU9,088).

Candidate 1 includes compensation of CU375 for bearing risk and a service margin of CU275. These margins are part of the current exit price at inception. This implies that the total current exit price at inception is CU9,738 (expected cash flows of CU9,088 plus risk margin of CU375 plus service margin of CU275). The remaining difference of CU262 (premium of CU10,000 less current exit price of CU9,738) is a positive day one difference. This day one difference will be deferred as a residual margin within the insurance liability.

Candidate 3 includes CU350 as the cost of bearing risk . The cost of bearing risk is considered to be a part of the cost to fulfil the contract. This implies that, at inception, the total costs to fulfil the obligation are CU9,299 (CU8,949 plus CU350). A positive day one difference of CU701 remains between the premium of CU 10,000 and the costs to fulfil the obligation of CU9,299. Candidate 3 recognises this day one difference as a residual margin within the insurance liabilities.

Candidate 4 estimates the initial margin by calibrating the margin directly to the premium (CU10,000). Considering the expected value of the cash flows of CU8,949, the composite margin at inception will be estimated at CU1,051. No day one difference will be recognised in profit or loss.

12. The illustration in the previous paragraph demonstrates that none of the candidates 1, 3 and 4 will recognise a positive day one difference in profit or loss.
13. Proponents of an exit notion sometimes argue that a fulfilment notion could result in recognising an entity's efficiencies at inception of the contract. They believe that these efficiencies should be recognised as the entity realises them over time. However, both fulfilment candidates we look at in this paper do not recognise a gain at inception. As the illustration in paragraph 11 demonstrates, the insurer does not recognise its efficiencies in profit or loss at inception but instead includes them in the overall margin. This implies that, in effect, the efficiencies will be released over time. Does this mean that, as a result of not having a gain at inception, the insurer's efficiency and inefficiencies have no impact on the overall day one measurement? That's not entirely the case. Consider a somewhat altered fact pattern.

Background

As a starting point, we use the fact pattern in paragraph 11. For this example, we consider the following differences in fact pattern.

The yearly benefits are CU3,250 for each policy instead of CU3,000. We assume that the compensation for bearing risk required by a market participant is CU350, equal to the cost of bearing risk for insurer A. We also assume that market participants typically do not require a service margin.

Application of the models

The total margin at inception implied by the premium is now CU421 (premium of CU10,000 less expected present value of the future cash flows of CU9,579) for a current fulfilment value. Candidate 4 would record this as one composite margin. Candidate 3 would split this margin into a risk margin of CU350 and a residual margin of CU71.

For candidate 1, the total margin is lower due to the efficiencies specific to insurer A. The overall margin implied by the premium is CU282; premium of CU10,000 less expected present value of the future cash flows of CU9,718. The difference at inception of CU139 between the margin for an exit notion (CU282) and a fulfilment notion (CU421) equals the present value of the differences between the insurer's yearly expenses of CU500 and a market participant's yearly expenses of CU550 for the three years of the contract.

However, current exit value should include at least a margin of CU350 for the compensation market participants require for bearing risk. Therefore, the current exit price at inception is CU10,068. The negative day one difference (loss) of CU68 will be recognised in profit or loss. Both fulfilment candidates have a positive day one difference of CU71, so no gain or loss is recognised at inception.

14. The illustration in the previous paragraph shows that in cases where a contract is on the edge of being onerous or not, entity-specific efficiencies potentially have an impact on day one profit or loss; even under a principle of not recognising positive day one differences in profit or loss. So proponents of an exit notion could argue that an entity using a fulfilment notion in some cases still recognises its efficiencies in profit or loss at inception. That would also apply if the more efficient insurer passes some or all of its expected efficiencies on to policyholders in the pricing.
15. However, those who support a fulfilment notion might argue the other way around by referring to a situation where an entity is less efficient than other market participants. Consider the adjusted example in paragraph 13, but now suppose that the entity's yearly expenses are CU550 and those of a market participant CU500. Proponents of a fulfilment value would note that at least one of the fulfilment candidates, candidate 3, would result in a day one loss of CU68¹. In contrast, current exit value would have zero gain or loss at inception. Proponents of a fulfilment value may take the view that, by not recognising a loss, current exit price, in effect, recognises a day one gain that would be reversed in later periods as the insurer provides the services. In other words, using a market participant's view might result in not recognising a loss by ignoring an insurer's inefficiencies

¹ We note that candidate 4 does not include a separate risk margin. Its composite margin at day one would be CU282 and no day one gain or loss would be recognised in the statement of comprehensive income, unless the liability adequacy test includes a risk margin.

whereas that loss generally is expected to occur because insurers do not typically transfer the obligations.

16. Should an insurer recognise its efficiencies and inefficiencies? First, we would like to emphasise that the impact on day one profit or loss is limited to cases where a contract is on the edge of being onerous. Furthermore, the arguments go both ways. Both an exit notion and a fulfilment notion could result in gains or losses that are reversed over time. Staff is therefore inclined to see whether or not to recognise the insurers' efficiencies and inefficiencies (if any) as a result from the choice of the measurement objective, not as a persuasive argument for choosing a measurement objective. If one believes that the objective should be to measure the cash flows that would arise for a market participant, then one accepts that the efficiencies and inefficiencies are reported over time as the insurer realises them. If one believes that the objective should be to measure the cash flows that would arise for the insurer that currently holds the liability, then one accepts that the efficiencies and inefficiencies are part of the measurement.
17. We now return to our original fact pattern of paragraph 11. The next illustration shows how the margins emerge over the life of the contract in the base case (so no subsequent changes in estimates occur).

Background

An appropriate driver needs to be selected for the release of residual margin components of candidate 1 and 3 and the composite margin of candidate 4. Paragraph 10 suggests that, if no other driver is available, perhaps release from risk could be used as a default. For this example, we use release from risk as the driver.

This paper uses a simplification that risk is spread evenly over the term of the contract [one would usually expect risk to vary over the life of the contract, for example later years of the contract could include more risk than earlier years] As a result, the residual margin and the composite margin are released evenly over the life of the contract.

Furthermore, we assume that the insurer provides its services evenly throughout the life of the contract. As a result, the service margin of candidate 1 is released evenly over the life of the contract.

Application of the models					
		Inception	2008	2009	2010
<i>Candidate 1</i>					
Release of margins					
- Risk margin	-	130	135		142
- Service margin	-	94	99		103
- Residual margin	-	90	95		99
	—	—	—		—
Total release of margins	-	314	329		344
Actual cost vs market participant	-	50	50		50
Investment income	-	500	356		211
Interest on insurance liabilities	-	(400)	(266)		(131)
	—	—	—		—
Margin	-	464	469		474
	—	—	—		—
<i>Candidate 3</i>					
Release of margins					
- Risk margin	-	121	126		131
- Residual margin	-	243	253		263
	—	—	—		—
Total release of margins	-	364	379		394
Investment income	-	500	356		211
Interest on insurance liabilities	-	(400)	(266)		(131)
	—	—	—		—
Margin	-	464	469		474
	—	—	—		—
<i>Candidate 4</i>					
Release of composite margin	-	364	379		394
Investment income	-	500	356		211
Interest on insurance liabilities	-	(400)	(266)		(131)
	—	—	—		—
Margin	-	464	469		474
	—	—	—		—

18. The example shows that for all the candidates, total profit emerges in roughly the same way. This is a result of the fact pattern. All the candidates use release from risk as a driver for every component of the margin and risk is expected to be spread evenly over the term of the contract. In practice, the various measurement approaches may use different drivers for different components of the margins. In that case, the candidates might show a somewhat different pattern for release of margins over the year.

19. Appendix A includes a break-down of the overall margin at each reporting date for each of the candidates. The balance sheet and cash flow information for one particular candidate, candidate 1, is included in appendix B to this paper. We did not include the balance sheets and the cash flows for the other candidates because they are quite similar.

Question for the boards

Do you have any comments?

Interaction with changes in estimates

20. The previous section dealt with the treatment of the other margin components if no further changes in estimates occur. Given the inherent variability of cash flows from insurance contracts, it seems unlikely that no such changes would arise. What would happen if subsequent changes in estimates occur?
21. Candidate 1 is based on current exit price and is similar, probably even identical, to fair value as defined in SFAS 157 *Fair Value Measurements* and as expected to be defined in the IASB's forthcoming ED on fair value measurements. Fair value measurement aims, amongst other, at reporting changes in estimates as they occur. At a standards level, any subsequent changes in the current exit price are to be reported in profit or loss or other comprehensive income. There seems to be no rationale or analogy for absorbing subsequent changes in the current exit price in a deferred day one difference.
22. For a fulfilment value, it is arguably less straight-forward. Respondents, including those who supported a fulfilment value, generally agreed that all changes in insurance liabilities should be reported in profit or loss or, in some cases, other comprehensive income. This particularly seemed to be uncontroversial for changes in (financial) market variables, which typically relate to changes in assets backing the insurance liabilities; not recognising those changes in profit or loss (or other comprehensive income) would result in an accounting mismatch if the assets are measured at fair value.

23. However, some believe that the residual and composite margins should be adjusted for subsequent changes in estimates other than (financial) market variables rather than recognising those changes in profit or loss. This typically would relate to changes in non-market variables like mortality, lapses, expenses and, if explicitly measured, the price of risk
24. We therefore identified two views on how to treat changes in estimates other than (financial) market variables for a fulfilment notion:
- (a) **View A.** Variability in cash flows is a significant inherent characteristic of the contract. At each subsequent measurement date, the performance statement should report changes in estimates promptly and transparently. Those changes should therefore not be absorbed by the remaining residual or composite margin. As a result, the residual and composite margins as implied by the premium at inception are released over the remaining period of the contract; subsequent changes in estimates are reported in profit or loss as they occur.
 - (b) **View B.** The measurement of an insurance contract consists of two components: the fulfilment value and, depending on the candidate, the residual or composite margin. The objective is to measure the overall margin that the insurer expects to earn based on current expectations. If the fulfilment value changes, the value of any residual or composite margins must change accordingly, unless those margins would become negative. As a result, residual and composite margins should be adjusted for changes in estimates at each subsequent reporting date, ie by adjusting the remaining margin for subsequent changes in estimates rather than recognising those changes in profit or loss. Changes in estimates therefore will be reflected in the release of margins in future reporting periods, not the current year's profit or loss. This means that an insurer will recognise differences between the actual cash flows for the reporting period and the most recent estimates as they occur.
25. Supporters of view A believe that changes in estimates should be reported as they occur. They see view B as a shock absorber. The shock absorber view would mean

that an insurer might, if the entire margin has been used up to absorb losses, measure a highly uncertain liability at the same amount as a fixed liability². Proponents of view A may see it as more consistent with a current measurement approach.

26. Proponents of view B note that view A may mean that an insurer recognises income or expense in one period only to reverse it in a subsequent period; in their view this is not a fair depiction of the margin the insurer earns over the life of the contract. Those who support view B may see view B as more consistent with the allocated transaction price approach proposed for revenue recognition. Furthermore, if one is not comfortable with recognising gains or losses in the statement of comprehensive income on day one, why should one be comfortable with reporting gains or losses from subsequent changes in estimates from day 2 and onwards? Proponents of view B do not see it as a shock absorber because an insurer will recognise differences between the actual cash flows for a reporting period and the most recent estimates in profit or loss for that reporting period. Reporting subsequent changes in estimates and the impact those changes have on margins could be achieved through disclosure, for example by disclosing period-to-period changes in margins.
27. A current measurement approach reports changes in an insurance liability in profit or loss as they occur; otherwise it would not be a current approach. However, proponents of view B would adjust the residual or composite margins for changes in the fulfilment value rather than reporting those changes in profit or loss. This implies that view B looks at the changes in the total insurance liability. This seems to be consistent with the objective of view B to measure the overall margin that the insurer expects to earn based on current expectations; changes estimates would result in a reallocation within the insurance liabilities between the fulfilment value and the value of any residual or composite margins.

² We note that this would not be the case if the measurement approach includes a separate risk margin. That is why staff proposed in agenda paper 5A to require that a measurement for insurance contracts includes a separate risk margin.

28. The next illustration shows how the margins emerge over the life of the contract if there is a subsequent change in circumstances. For a fulfilment approach, the illustration shows both views A and B.

Background

In the base case of paragraph 11, the expected mortality was 4% for year 1, 8% for year 2 and 16% for year 3. Suppose that on 31 December 2008 insurer A expects mortality rates for year 2 and 3 to fall by 50% to 4% and 8% respectively. As a result, the expected benefits payable for year 2 and 3 will increase.

Suppose that, in addition, the insurer estimates that the variability of the cash flows will increase, and that market participants would draw the same conclusions. As a result, remaining risk margin increases by 20% for both exit price and candidate 3. Furthermore, we assume that market participants require an increase of the remaining service margin by 20%.

Application of the models

Current exit price

For current exit price, we concluded that the only alternative is to report changes in profit or loss or other comprehensive income.

	Inception	2008	2009	2010
<i>Candidate 1</i>				
Release of margins				
- Risk margin	-	130	162	169
- Service margin	-	94	119	124
- Residual margin	-	90	95	98
Total release of margins	—	—	—	—
Actual cost vs market participant	-	50	50	50
Changes in estimates	-	(427)	-	-
Investment income	-	500	356	205
Interest on insurance liabilities	-	(400)	(284)	(143)
Margin	—	—	—	—
	-	37	498	503

Current fulfilment value

For the fulfilment candidates, we described two alternatives on how to treat subsequent changes in cash flows in relation to the margins. We first show how the performance statement would look if all changes in estimates are recognised in profit or loss (view A).

View A- all changes in estimates are recognised in profit or loss*Candidate 3*

Release of margins

- Risk margin	-	121	152	158
- Residual margin	-	243	253	263
	—	—	—	—
Total release of margins	-	364	405	421
Changes in estimates	-	(386)	-	-
Investment income	-	500	356	205
Interest on insurance liabilities	-	(400)	(282)	(142)
	—	—	—	—
Margin	-	78	479	484
	—	—	—	—

Candidate 4

Release of composite margin

- Risk margin	-	364	379	394
- Residual margin	-	243	52	54
	—	—	—	—
Total release of margins	-	364	204	212
Changes in estimates	-	(337)	-	-
Investment income	-	500	356	205
Interest on insurance liabilities	-	(400)	(280)	(141)
	—	—	—	—
Margin	-	127	455	458
	—	—	—	—

We now show how the performance statement would look if the changes in estimates other than those in (financial) market variables are adjusted in the residual margin of candidate 3 or the composite margin of candidate 4 (view B).

View B- residual and composite margins are adjusted for changes in estimates*Candidate 3*

Release of margins

- Risk margin	-	121	152	158
- Residual margin	-	243	52	54
	—	—	—	—
Total release of margins	-	364	204	212
Changes in estimates	-	-	-	-
Investment income	-	500	356	205
Interest on insurance liabilities	-	(400)	(266)	(134)
	—	—	—	—
Margin	-	464	294	283
	—	—	—	—

<i>Candidate 4</i>				
Release of composite margin	-	364	204	212
Changes in estimates	-	-	-	-
Investment income	-	500	356	205
Interest on insurance liabilities	-	(400)	(266)	(134)
Margin	—	464	294	283

29. We comment as follows on the illustration in the previous paragraph:

- (a) some candidates update more components of the liability than others. Therefore, the candidates react differently to a change in circumstances. For example, the changes in estimates for candidate 3 (CU386) are greater than in candidate 4 (CU337) because candidate 3 includes a remeasurement of the risk margin; candidate 4 does not remeasure the composite margin for a change in the variability of cash flows.
- (b) the choice whether to adjust any residual or composite margin component for changes in estimates can have a significant impact on the pattern in which profits (and losses) arise over the remaining life of the contract; particularly when those changes in estimates are large.
- (c) under view B, candidates 3 and 4 result in the same answer in this example. However, this does not always have to be the case. If a contract was on the balance of being onerous or if the candidates use different drivers to release the margin, different profit patterns are likely to occur.
- (d) the level of aggregation matters for measuring margins. It also matters for the release pattern of residual and composite margins. We will come back to this issue at a later stage.

30. The example looked at changes in estimates that occurred at the end of a reporting period and would affect future reporting periods. An insurer will experience differences between the actual cash flows for the reporting period and the estimates used for the current reporting period. Such differences may or may not be a reason for the insurer to update its estimates, depending on the circumstances. For both

views A and B, differences between the actual cash flows and the previous estimates will be reported in profit or loss immediately.

Question for the boards

Do you need more information to decide between view A and B?

Other contracts

31. For this paper, it is in our view not necessary to include further illustrations. At a future meeting, we may look at examples for other types of contracts, for example:

- (a) participating contracts.
- (b) unit-linked (variable) contracts
- (c) universal life contracts.
- (d) non-life contracts - we will look at examples on non-life when discussing an unearned premium approach (candidate 5).

Appendix A – Overview of Margins at Reporting date

BASE CASE (figures in CU1,000)***Candidate 1***

	<i>Inception</i>	<i>31 dec 08</i>	<i>30 dec 09</i>	<i>31 dec 10</i>
Risk Margin	375	260	135	0
Service Margin	275	191	99	0
Residual Margin	262	182	95	0
Total Margin	912	633	329	0

Candidate 3

Risk Margin	350	243	126	0
Residual Margin	701	486	253	0
Total Margin	1.051	729	379	0

Candidate 4

Composite Margin	1.051	729	379	0
Total Margin	1.051	729	379	0

CASE WITH DECREASED MORTALITY (figures in CU1,000)**Candidate 1**

	<i>Inception</i>	<i>31 dec 08</i>	<i>30 dec 09</i>	<i>31 dec 10</i>
Risk Margin	375	312	162	0
Service Margin	275	229	119	0
Residual Margin	262	182	95	0
Total Margin	912	723	376	0

Candidate 3 – View A

Risk Margin	350	292	152	0
Residual Margin	701	486	253	0
Total Margin	1.051	778	405	0

Candidate 3 – View B

Risk Margin	350	292	152	0
Residual Margin	701	100	52	0
Total Margin	1.051	392	204	0

Candidate 4 –View A

Composite Margin	1.051	729	379	0
Total Margin	1.051	729	379	0

Candidate 4 –View B

Composite Margin	1.051	392	204	0
Total Margin	1.051	392	204	0

Appendix B – Balance Sheet and Cash Flow Statement

CANDIDATE 1- BASE CASE**Balance sheet (figures in CU1,000)**

	<i>Inception</i>	<i>31 dec 08</i>	<i>30 dec 09</i>	<i>31 dec 10</i>
Cash	0	0	0	1.407
Investments	10.000	7.120	4.216	0
Total assets	10.000	7.120	4.216	1.407
Insurance liabilities	10.000	6.654	3.281	0
Total liabilities	10.000	6.654	3.281	0
Equity (retained earnings)	0	466	935	1.407
Total liabilities and equity	10.000	7.120	4.216	1.407

Cash flows (figures in CU1,000)

	<i>Inception</i>	<i>31 dec 08</i>	<i>30 dec 09</i>	<i>31 dec 10</i>
Start of period		0	0	0
Premiums	10.000			
Acquisition costs	0			
Investments bought	-10.000			
Investments matured		3.380	3.260	4.427
Payments		-3.380	-3.260	-3.020
End of period	0	0	0	1.407

CANDIDATE 1- Case with decreased mortality**Balance sheet (figures in CU1,000)**

	<i>Inception</i>	<i>31 dec 08</i>	<i>30 dec 09</i>	<i>31 dec 10</i>
Cash	0	0	0	1.041
Investments	10.000	7.120	4.096	0
Total assets	<u>10.000</u>	<u>7.120</u>	<u>4.096</u>	<u>1.041</u>
Insurance liabilities	10.000	7.081	3.559	0
Total liabilities	<u>10.000</u>	<u>7.081</u>	<u>3.559</u>	<u>0</u>
Equity (retained earnings)	<u>0</u>	<u>39</u>	<u>537</u>	<u>1.041</u>
Total liabilities and equity	<u><u>10.000</u></u>	<u><u>7.120</u></u>	<u><u>4.096</u></u>	<u><u>1.041</u></u>

Cash flows (figures in CU1,000)

	<i>Inception</i>	<i>31 dec 08</i>	<i>30 dec 09</i>	<i>31 dec 10</i>
Start of period		0	0	0
Premiums	10.000			
Acquisition costs	0			
Investments bought	-10.000			
Investments matured		3.380	3.380	4.301
Payments		-3.380	-3.380	-3.260
End of period	<u>0</u>	<u>0</u>	<u>0</u>	<u>1.041</u>