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Investment Components and Other Non-Service Payments

Stefan Engeländer

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IFRS Framework: Purpose of Financial Statements

IFRS-Report: Decision-Useful Information for Users

- Includes information about stewardship of the management
- Individual transactions and events: Atom of accounting
  - Transaction: Consequence of a single management decision
  - Event: Single incurrence effecting the financial position of the entity
- Financial report: Summary of the economic effects of all transactions and events
  - User enabled to draw its own conclusions based on the information about transactions and events
  - Accrual basis: Allocation of the economic consequences to the period where the causing transaction or event incurred
  - Unit of account basis: The single transaction or event and its consequences, not presenting the change in the overall entity‘s value (that does not exclude that the single transaction or event is measured on statistical data derived from a large population)

IFRS Framework: The Elements of Financial Statements

Financial Position and Performance

- Financial position: Summary of all assets and liabilities and the residual, the equity, of the entity at the reporting date
- Performance: Enhancement of the financial position in the period before the reporting date
  - Profit of the period
  - Net result of income and expenses
  - Income: Increase in economic benefits by inflows, increase of assets or decrease of liabilities
    - Revenue: Income in the course of the ordinary activities of the entity
    - Gains: Other income
  - Expenses: Decrease in economic benefits by outflows, decrease of assets or increase of liabilities
    - Losses: Expenses in form of changes of value of items

Income

- Any enhancement of the financial position by a transaction or event
- Revenue:
  - The consideration received for sales of goods, providing services, earning interest on provided funds, dividends on stocks hold …
  - i.e. the return for own ordinary business activities
- Gains:
  - Increase of value of an asset hold, profit made in selling a part of the own business, …
  - i.e. any income which is not revenue.
- Simplified explanation:
  - Enhancement of one item of the financial position causing simultaneously a diminution in ***definitely the same*** amount of another item of the financial position: No income
  - If there is the potential of a difference (e.g. as between expected claims and actual claims), since not one amount causes the other, it is income.

Expenses and Losses

- Revenue $\uplus$ gains = income, but losses $\subset$ expenses
- Expenses in the narrower sense:
  - Cost of sales, wages and depreciation
  - Usually in form of cash outflows, depletion of assets like inventory, property, equipment
  - But may be as well deferred cash like post-employment benefits or liabilities for incurred claims
- Losses:
  - Changes in value of items, e.g. reduction of the market price of an item without changing the item itself, reduction of value of an item even it is not used, …
- Same simplified explanation as before:
  - Diminution of one item of the financial position causing simultaneously an enhancement in ***definitely the same*** amount of another item of the financial position: No expense
  - If there is the potential of a difference (e.g. as between expected claims and actual claims), since not one amount causes the other, it is expense.

Insurance Service Result, IFIE and other

- Differentiation of entity's performance of insurance contract services (and other contractual services) and other performance
- Insurance service result
  - Insurance **revenue**
  - Insurance service **expenses**
  - **Income** and **expenses** from reinsurance contracts held
- Financial result
  - Insurance finance **income** and **expenses**
- Other: Income (e.g. commissions for own agent activities for third parties), gains (increase of value of inventory), expenses (overhead cost), losses (destroyed IT equipment)
- Identification in applying strictly accounting definitions
- Items traditionally presented in the performance report like premiums, surrender values, maturity values which do not represent income or expenses are not presented in the IFRS performance report!

Insurance Service Result

- Compares the allocated consideration received for the provision of insurance contract services (and other contractual services) to be provided in the period with the allocated actual expenses incurred for providing the services in the period
- Excludes anything what is not consideration and expenses related to the provision of insurance contract services (and other contractual services)
  - Cost (expenses) not directly related and directly attributable to the contracts (some overhead cost)
  - Cash received and allocated to the period since expected to be paid in the period which does not represent consideration for any service
  - Cash paid in the period which is not expenses for any service
- While overhead is presented as expenses outside the insurance service result, the latter two are not presented at all in P&L since they are neither income nor expenses.

IFRS 17 References

- IFRS 17.A Investment component:” The amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.”
- IFRS 17.103(c) Refund of premiums: No definition
- IFRS 17.B123(a)(iia) Loans to policyholders: No definition
- IFRS 17.83 Insurance revenue depicts the provision of services
- Cash flows not representing services are not presented in P&L.

Investment Component: Definition

- IFRS 17.A Investment ***component***:" The ***amounts*** that an insurance contract ***requires*** the entity to ***repay*** to ***a policyholder*** in ***all circumstances***, regardless of whether an insured event occurs."
- Conceptually, an investment component has the character of a deposit.
- What means
  - component
  - amount
  - require
  - repay
  - policyholder
  - all circumstances?
- To note in interpreting the definition:
  - Cash flows not representing a service
  - "Investment" indicates it is an investment
  - There exist other cash flows than investment component not representing services
- IFRS 17.117(c)(iv): Disclose the approach to determine investment components

Component

- IFRS 17 references to “component” (as a contract part, not as a measurement part as e.g. a loss component):
  - IFRS 17.10: “components that would be within the scope of another Standard if they were separate contracts”
    - Indicates that a “component” might be broadly capable to be a separate contract
    - Should include both, cash inflows and cash outflows, broadly adequate (IFRS 17.12(a) and (b))
    - Refers to investment components (IFRS 9) and components subject to IFRS 15 (other services or transfer of goods)
  - IFRS 17.A: Investment component
  - IFRS 17.7(h): Insurance coverage component
  - IFRS 17.10: Component for services other than insurance contract services
  - IFRS 17.12: Components transferring goods
  - IFRS 17.12: Insurance component
  - IFRS 17.55(b)(iv): Financing component

Component

- Separately identifiable exchange relationship with the contractual counterparty
  - Transfer of goods
  - Investment
  - Loan (policy loan not explicitly referred to as component, but appears to be one)
  - Provision of coverage
    - Different types of coverage provided may be seen as different components
  - Provision of other insurance contract services (investment-return or –related)
  - Provision of other services
- Are considered in pricing, but a separate price might not be readily determinable
- Are included in expenses, but related expenses might not be readily determinable

Component

- The concept of a component helps to analyze the contents of the contract but identifying components is not an exact science, except
  - investment components
  - policy loans
  - contract components separated by a contract boundary
  - but even for distinct components an allocation of cash flows might be needed.
  - No component: Premium refund – it is an event terminating the component for which the premium was originally paid
- Components are needed to
  - identify the unit of account under IFRS 17 (separating and excluding from IFRS 17 distinct components not within the scope of IFRS 17 and treat distinct insurance components under substance over form as separate units of account, IFRS 17.BC114)
  - identify whether amounts paid or allocated to the period are to be presented in P&L or as change of balance items (only investment components)

Amount

- In connection with “repaid”, an amount is a specific quantity of a specific currency, i.e. a nominal amount of cash.
- But, in a principle-based standard, it can be as well any other asset, whose value denominated in a specific currency might change, e.g.
  - a specific quantity of units of a specific mutual fund
  - a specific number of specific bonds
  - a specific percentage of a specific index
- It can be derived from the references to “investment” and “repaid”, that the amount is determined at establishing of the right (“required”) to receive the repayment by the amount of the payment by the “policyholder”.
  - E.g., if the policyholder pays 100 € and at that time that is the value of 2.3 units of the mutual fund, the amount of the investment component is 2.3 units if the entity is obliged to pay with certainty once 2.3 units.
- It is the nominal amount, as it was paid, it is not discounted or interest accreted (although the future payment is discounted in measurement).

Amount

- Can the amount increase or decrease?
  - No.
    - The nominal value of the repayment in cash can change if denominated in a currency other than the index which determines the amount (e.g. in case of an amount of units of a mutual fund).
    - Amounts can be added (additional payments by the policyholder) or withdrawn (repaid).
- To qualify as an investment component (deposit), there is no need that any investment service is provided or any return is granted. The investment component is represented by the nominal amount.
- The amount is the amount actually paid with certainty, i.e. any part of the original payment which may be retained by the insurer in at least one of the scenarios is not part of the amount since that part is not repaid with certainty, e.g.
  - a temporarily applied surrender charge
  - a surrender charge waived within a death benefit (difference to the definition of insurance risk since a surrender charge is not pre-existing risk)

Requires

- “The amounts that an insurance contract ***requires*** the entity to repay to a policyholder in ***all circumstances***”
- There is a subtle difference to
  - “The amounts that ***is repaid*** by the entity to a policyholder in ***all circumstances***”
  - If in case of bankruptcy a contractually repayable amount is not repaid, the latter condition is not met while the condition in IFRS 17.A is met. Relevant is what the contract says, not what actually happens in deviation from the contract.
  - E.g. it is always possible to change a contract by an unanimous agreement of the parties (contract modification) – that may cause that the amount is not paid but that does not count here since it is not part of the contract to be measured.
- The repayment of the (entire) amount needs to be a contractual obligation, it cannot be at the discretion of the insurer.

Repay

- Investment in form of a deposit, i.e. first a cash inflow followed later by a cash outflow representing the same amount as the cash inflow (currency amount of the cash flow depends on the denomination of the amount).
- Under substance over form, the “cash inflow” can be an extended transfer of an asset, resulting in an additional amount of the investment component (or an additional investment component, which is the same), e.g.
  - an irrevocable accretion of interest or bonus, which is required to be paid later in all circumstances
  - a waiver of premium benefit provided in lieu of a premium payment, if the premium payment would have included an investment component
  - any other increase of policyholder’s rights which could as well be achieved by an additional premium including an investment component
- The repayment can incur in installments, as long as the sum of the installments equals the amount (nominal).
- However, a premium deposit, which is consumed later to acquire services, is not an investment component but it is, if repaid, a premium refund.

A Policyholder

- IFRS 17.A Policyholder: “A party that has a right to compensation under an insurance contract if an insured event occurs.”
  - I.e. the policyholder is the party subject to the adverse effect of the insured event and compensated for that.
  - IASB wanted in the early stages of the project make things simple and therefore choose a definition, which is actually that of the claimant or adversely affected beneficiary, not that of the legal counterparty.
  - A contract can have several “policyholders” in the sense of IFRS 17 (reference in the definition to “a policyholder”). Who is the policyholder in case of a
    - third party liability insurance? (the insured person, not the claimant)
    - term life insurance? (the beneficiary)
    - endowment life insurance? (survival: insured person, death: beneficiary)
    - defined contribution plan? (the employee)
    - defined benefit plan? (the employer)

A Policyholder

- The definition of "policyholder" does not properly work in the definition of an investment component (IASB didn't notice):
  - In any case, the person paying the premium and the person receiving the repayment may be different.
  - The premium payer might receive the repayment although not adversely effected, i.e. not being policyholder in the sense of IFRS 17.
  - However, that should not mean that the component is not an investment component.
  - It is sufficient that the amount is to be paid to a party determined by the legal counterparty under the contract – requiring to forward a payment to another person doesn't change the character of a deposit.
- The recipient of the payment should not be at the discretion of the insurer, e.g. if amounts are paid under a participation feature to the policyholder of another contract "on behalf of the policyholder" (mutualisation, inheritance).

All Circumstances

- In all scenarios, the nominal amount is to be paid under the contract to one of the policyholders of the contract or to another stipulated person.
- That applies from the original payment onwards, i.e. **already at that time** the repayment was certain.
- Ignoring scenarios of lacking commercial substance, i.e. no discernible effect on the economics of the contract (such scenarios are generally ignored in applying IFRSs under substance over form)
  - Not noticeable that any participant takes those scenarios into account, e.g. in pricing, managing, monitoring etc. of the scenarios
  - Very low likelihood is insufficient
  - Including a basis for such a scenario explicitly in the contract may indicate, that it has commercial substance but that may be rebuttable
- Ignoring scenarios without payment although the obligation to pay exists legally (bankruptcy)

No Services Provided

- Repayment of the received amount is certain – investment component has the character of a pure deposit
- No benefit to the policyholder from the pure cash exchange
- The acceptance and the repayment of the deposit do not represent a service.
- The insurer may provide services based on the deposit, e.g. investment-return or –related services, but that does not change the character of the payment and the repayment.
- Under accounting principles, the receipt of the payment cannot represent income (revenue), the repayment cannot represent expenses.
  - If separated applying IFRS 17.11(b), IFRS 9 does not allow P&L recognition
  - If not separated, IFRS 17.85 does not allow P&L recognition

Examples

- Surrender value acquired with a premium payment in an endowment life insurance (the lowest overall payable amount resulting from a premium payment)
- Interest or bonus accreted, waiver of premium provided in an endowment life insurance (the lowest overall payable amount resulting from the allocation)
- Non-life insurance with no-claims bonus – the lowest amount which is paid, incurring claims or not (to note: it is to be assumed that the policyholder does not claim for compensations lower than the no-claims bonus, except that this is unavoidable due to construction)
- “Reinsurance commissions” (i.e. immediate rebate on the reinsurance premium to the cedant) if they repay a part of the reinsurance premium due to low claims – the lowest amount which is paid by the reinsurer
- In all those cases the investment component may be repaid within a claims payment, i.e. that part of the claims payment is no service and not presented in P&L. But there exist as well some contracts with an explicit deposit which is repaid at the end of the contract with certainty, sometime financing coverage by the interest earned on the deposit.

Types of Policy Loans

- A legal separate loan granted by the insurer collateralized by a cession of the surrender value
  - Separate financial instrument in the scope of IFRS 9
- A contractual option to receive a temporary repayment of premiums paid in advance for future periods to be paid again before the premium is needed plus a compensation for the discounting effect in a premium paid in advance
  - Component of the insurance contract, no provision in IFRS 17 permitting separation (IFRS 17.13)
  - The payments do not represent services (IFRS 17.B123(a)(iia)) and are not recognized in P&L

Definition of Premium Refund

- No definition in IFRS 17, just a reference in IFRS 17.103(c)
- A premium paid in advance is repaid before the service, to which the premium is allocated, is provided.
- Negative premium payment, and as any premium payment not presented in P&L
- The repayment of a premium before the allocated service is provided does not represent a service.
- The amount is repaid to a contractually determined person as in case of an investment component.
- In difference to an investment component, a premium refund does not incur with certainty.
  - It can be uncertain to be paid before a right to receive the premium refund arises (temporarily applied surrender charge).
  - The right of refund on demand may exist only for some time since the amount is subsequently consumed for the provision of service.

Examples

- Term life contract with surrender value
- Non-life contract with pro rata repayment of premium if terminated prematurely
- Endowment contract with a surrender charge applied only for surrender in the first 5 years or without surrender value in the first year (the premium refund is the respective part of the premium which is not repaid) – in that case it is subsequently certain that the amount is paid, premium refund is not only an amount paid on demand but as well the respective part of the death benefit
- Premium deposit included in contract terms refunded before the formal premium is due.

- To note:
  - The difference between investment component, seen as deposit, and premium refund, seen as such, is only formal, since the amounts are disclosed accordingly in different parts. However, IFRS 17.103(c) permits to disclose premium refunds as if they were investment components.
  - A premium refund cannot be separated since it is not a component and cannot be distinct.

Other Cash Flows not Representing the Provision of Service

Example

- IFRS 17.83 and 84 exclude cash flows not representing services from P&L as a principle, not limited to the explicitly mentioned investment components, policy loans and premium refunds. Example for other such cash flows:
  - Interest accreted (presented as IFIE) which is temporarily included in a surrender value before it is consumed for service

- Cash flows not representing the provision of service are subsequently referred to as non-service cash flows, including cash flows under investment components, premium refunds, policy loans and other

Investment Component

- IFRS 17.13 prohibits to separate non-service components other than investment components
- Investment components included in the (legal) contract, which are identified at issuing of the contract as being distinct, are separated and accounted for under IFRS 9, except if they are in the scope of IFRS 17 (with DPF) – IFRS 17.11(a)
  - For that purpose, the entity needs to investigate at issuing of the contract whether it contains distinct investment components (investment components in general need not to be identified at that time, only if need in subsequent measurement and P&L presentation)
  - IFRS 17.B31 and B32 describe strict conditions for separation, i.e. separation is only done if really necessary and then obligatory.
  - It can be assumed that an investment component is only distinct if the contract is styled accordingly for purpose, i.e. the entity would know that.
  - Very few examples for investment components to be separated are known.

IFRS 17.B31 and B32

- The investment component, after allocating an appropriate share of charges to it, is or at least could be sold as separate legal contract, i.e. it includes anything to allow a separate consideration.
- And: It is not highly interrelated to the part of the contract remaining in the scope of IFRS 17, i.e.
  - there is no interdependency of cash flows which would have to be considered in measurement and
  - "the policyholder is unable to benefit from one component unless the other is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply IFRS 17 to account for the combined investment component and insurance component."
    - To note: Many deposits have a maturity date. The fact that both, the investment component and the remaining part of the contract have contractually the same end date does not cause high interrelation itself. That both are sold for technical reasons only with the same maturity date does not matter.

Timing of Identification

- Distinct investment components need to be identified at issuing of the contract
- All other non-service cash flows need to be identified only when expected to be paid or when actually paid.
- There is intentionally no
  - requirement to disclose the investment components currently included in the insurance contract liabilities
  - minimum deposit floor as in IFRS 13.47 (amounts payable on demand). Background is that IFRS 17 does not measure policyholder's behavior assuming financial rational behavior (i.e. the policyholder is expected to withdraw when the fair value of the net rights is below the amount payable on demand) but considers policyholder's behavior as being non-financial risk to be measured based on entity's realistic expectations and its entity-specific risk aversion (IFRS 17.B53 and B62)
- IASB missed issues arising for contracts with possibly multiple payments – amounts repaid need to be monitored.

Measurement in the Fulfilment Cash flows (FCF)

- All future expected cash flows within the contract boundary are to be anticipated in the FCF with the risk-adjusted expected present value.
- I.e. the discounted amount not the nominal amount received is included, the difference between the nominal amount received or expected to be received and the risk-adjusted discounted value considered in the FCF is included in the CSM.
  - Later or earlier payment than expected or a change in expectation causes a financial impact, more or less gain from discounting – the risk is to be considered in the risk-adjustment for non-financial risk.
  - In case of an investment component, the nominal amount is paid with certainty, i.e. if paid earlier, an expected future payment is derecognized, if not paid when expected, an additional future expected payment is to be recognized.
  - More or less premium refunds than expected mean less or more profits from the provision of future services than expected.

Measurement in the Liability for Remaining Coverage

- The profit effect of earlier or later payment of an investment component adjusts the CSM. That is the result of IFRS 17.B96(b) and (c) in combination.
  - IFRS 17.B96(b) considers that accordingly in future periods less or more cash outflows from the investment components will arise (measured at their PV)
  - IFRS 17.B96(c) considers that in the current period more or less investment components were repaid, at their nominally value
  - On a net basis, the CSM is decreased or increased for the discounting effect.
- The equivalent applies if more or less premium refunds are demanded than expected. But here, as well the profit margin in the respective premium adjusts the CSM.
  - IFRS 17.B96(b) considers that accordingly in future periods less or more cash outflows from the services related to the premium will arise (measured at their risk-adjusted PV, excluding the profit margin)
  - IFRS 17.B96(a) considers that in the current period less or more premiums are received for future periods.
  - On a net basis, the CSM is decreased or increased for the revised profit margin.

Measurement in the Liability for Remaining Coverage

- Normal measurement at initial recognition:
  Assume 2 year contract, expected repayment of investment component of 100 end of year 1, discounting effect 10
- Dr Bank 100
  - Cr FCF Y1 90 (FCF future cash outflows, in case of premium refund FCF future premiums)
  - Cr CSM 10
- End of year unwind of discount
- Dr IFIE 10
  - Cr FCF Y1 10
- Payment as expected
- Dr FCF Y1 100
  - Cr Bank 100 (Disclosed under IFRS 17.103(c), in case of premium refund alternatively under IFRS 17.105(a)(i))

Measurement in the Liability for Remaining Coverage

- If it turns out that the investment component of 100 is not paid:
- Dr CSM 90
  Cr FCF Y2 90 (IFRS 17.B96(b), the unexpected benefit in year 2, PV 90, adjusts the CSM)
- Dr FCF Y1 100
  Cr CSM 100 (IFRS 17.B96(c), the experience adjustment of the investment component, 100, adjusts the CSM)
- Net effect to CSM: 10 = one year more discounting on the amount of the investment component
- In case of a non-demanded premium refund of 100 at end of year 1 (profit margin 5)
- Dr CSM 95
  Cr FCF Y2 95 (IFRS 17.B96(b), the unexpected benefit in year 2, PV 95, adjusts the CSM)
- Dr FCF Y1 100
  Cr CSM 100 (IFRS 17.B96(a), the experience adjustment of the premium, 100, adjusts the CSM)
- Net effect to CSM: 5 = profit margin for one additional year of service

Measurement in the Liability for Remaining Coverage

- While the amount of the investment component might be clear, it might not be clear when it is repaid.
- Example: 1 year car insurance, 1,000 premium with a no-claims bonus of 10% of premium. I.e. 100 is repaid with certainty and therefore an investment component.
  - The policyholder incurs 4 claims, each 200, one in each quarter.
  - In which quarter(s) is the insurance revenue and the insurance service expense reduced to exclude overall the 100 from P&L?
- The entity has to apply an approach of allocating the investment component to payments in a manner that, after all cash flows of the LRC are released, as well insurance revenue is recognized reduced by the investment component.
- One approach is to assume that any payment up to the amount of the investment component is a repayment of the investment component, services are provided later.

Measurement in the Liability for Remaining Coverage

- Sometimes more complex approaches are needed.
- Example: Commercial non-life contract with a premium repayment of 50% of the excess of the premium over the claims, if positive, to be paid in the subsequent year.
  - Single premium 1,000
  - Expected claims 800
  - Initially expected premium repayment 100
  - Investment component: Whatever happens, the policyholder receives at least 500
  - Any claim incurred is 50% repayment of the investment component, up to the sum of 500.
  - If less claims incur, the remaining expected or finally actual premium repayment tops up the amount to 500, i.e. the premium repayment is never presented in P&L.

Measurement in the Liability for Remaining Coverage

- Non-service cash flows do not affect the release pattern of the CSM.
- To consider investment services in the CSM release as investment-returns service, the contract has to include an investment component or a premium refund (withdrawal right) – IFRS 17.B119B(a)
  - The amount needs to include an investment return based on initial expectations. The investment return does not need to be variable, it can be fixed.
- Premium refunds typically terminate the contract.
  - The respective group of contracts continues to exist.
  - Any difference between the expected premium refund and the accordingly forfeited future cash flows is included in the initial CSM of the group.
  - The difference between the expected and actual premium refund adjusts the CSM according to IFRS 17.B96(a).
  - The difference between the expected forfeited future cash flows and the actual forfeited adjust the CSM according to IFRS 17.B96(b).
  - I.e. the net effect of more or less surrenders adjusts the CSM.

Measurement in the Liability for Incurred Claims (LIC)

- In the example, some claims incurred may not be settled but considered in the LIC. Hence, up to the amount of 500 total claims, 50% of the claims in the LIC represent investment components, not recognized as insurance service expense when the LIC is established.
- If the estimate of the ultimate claim changes, as well the expected premium repayment in the LRC changes. In that extent, the change of the LIC is not recognized in insurance service expense.
- Example:
  - Claims incurred but not settled in the first quarter as expected: 200
  - Dr FCF LRC 200
    Cr Insurance revenue 100
    Cr FCF LIC 100
  - Dr Insurance service expense 100
    Cr FCF LIC 100

Measurement in the Liability for Incurred Claims (LIC)

- If the estimate of the claims in the LIC is decreased by 100:
  - Dr FCF LIC 100
    Cr FCF LRC 50 (increase of the expected premium repayment in the FCF LRC)
    Cr Insurance service expense 50
  - Insurance revenue is not affected.
  - Movements of non-service cash flows are the sole cases where movements of the expected cash flows in the LIC are not presented in insurance service expense.
  - In such cases, the amounts are directly exchanged between LRC and LIC.

Measurement in the Liability for Incurred Claims (LIC)

- In each period, the amount deducted from the released cash flows from the LRC to determine insurance revenue, is as well deducted from the insurance service expense.
- If actually more or less payments incur than expected in the LRC, the LRC and accordingly the amount deducted in insurance revenue is adjusted in the same amount.
- In some cases, the amount released from the LRC assumed to be an investment component is not immediately paid but remains in the LIC. The investment component is moved directly from the LRC to the LIC, without affecting P&L.
- A decrease or increase of the amount in the LIC, if related to investment components, affects equally the LRC. It may even happen after the end of the coverage period, i.e. there is no longer an LRC.
  - IFRS 17 in unclear, whether in such a case the amount to be paid in future is recognized as a new LRC or remains in the LIC.
  - It is as well not clear, when the premium repayment is to be moved to the LIC, if at all, it could be the date when the payment becomes due or the date when the coverage period ends – consistent approaches e.g. with life insurance are needed.

Measurement in the PAA

- Investment components are not subject to the normal release of the LRC and not part of the estimate of the total premiums forming the basis for the release.
- They are released from the LRC when to be paid (or when they fall due as consequence of an insured event).
- A premium refund usually terminates the contract.
  - A negative premium received is considered in measurement resulting in a reduction of the PAA LRC in the amount of the premium refund.
  - Both, the negative premium received and the premium refund payment, are not recognized in P&L.

Estimation

- In theory, the movements of the non-service cash flows can be exactly determined.
- The timing is often merely judgmental.
- However, to identify all those amounts exactly will usually cause very high cost and demand styling of systems for identifying events not demanded from management up to now.
- The amounts do not affect equity or profit, just deflating revenue and expense correspondingly, disclosed in some notes.
- That is a typical situation to apply estimates and approximations.
  - If it can be demonstrated that the effect to amounts presented is immaterial, that is permitted.
  - It is as well permissible to determine the respective amounts on a higher level of aggregation, if the aggregated presented numbers are demonstrably materially correct.

Estimation

- Will auditors in future permit approaches which reflect reasonably the demanded information without causing inadequate cost? Talk with you auditor!
- Potential areas might be e.g.:
  - Treating all surrender values outside the P&L
  - Deducting known simultaneous existing surrender values from the death benefits
  - Applying approaches on a total business not individual event level
  - Estimating investment components in form of claim-contingent premium repayments on a collective basis

Questions?