PAA double count for Unpaid Premium relating to past Service

Under current accounting practice for general and health insurers, late receipt of premium is recognised in the premiums receivable asset. This is simply a transfer from the cash to premium receivable asset, with the offset being in the Unearned Premium liability.

Under IFRS 17's general method future premium receivables are allowed for within the fulfilment cash flows, with expected premium that is in respect of future services included in the Liability for Remaining Coverage, and outstanding premium on past services captured within the Liability for Incurred Claims. So under the general method, the liabilities shown in the accounts are net of the asset which under existing rules is split out. Therefore it will look different in the balance sheet, but achieve the same overall net asset position.

However, under the PAA while the Liability for Incurred Costs is unchanged, the Liability for Remaining Coverage is different. It is calculated as the paid premium minus insurance revenue for coverage provided. Unpaid premium creates an asset within the Liability for Remaining Coverage. The issue is that the Liability for Remaining Coverage does **not** adjust for what is in respect of past service or future service. Therefore, if there is unpaid premium in respect of past service at the reporting date, it will be allowed for in both the Liability for Remaining Coverage and the Liability for Incurred Claims.

The only published example of premiums paid in arrears to my knowledge is Scenario 2 from AP06 from the May 2018 TRG meeting. This was a simplified example including no Liability for Incurred Claims. It did show the premium asset in respect of past service being allocated to the Liability for Remaining Coverage; albeit, this may be due to the example being simplified.

Most Australian health insurance policies written are paid monthly, and are subject to the Federal Government Rebate which results in the government paying part of the premium 2-4 months after the receipt of the premium and the service month it relates to. As the Australian health insurance industry will almost certainly use the PAA, this means that this double count applies to the entire industry.

Some General and Life insurers where premium is paid after service may also be impacted, although materiality is likely to be significantly less. Examples of areas that might be impacted are:

- Risk Equalisation Mechanism in CTP NSW
- 90 days credit to brokers on commercial classes
- Policies written on a burning cost basis such as may occur with Workers Compensation or Motor Fleet policies
- Policies where the final premium is adjustable on actual consumption. For example:
    - Reinsurance contracts where the final premium is adjustable for premium written
    - Workers Compensation may adjust with final wages
    - Construction annual policies for the cost of projects started
    - Marine Cargo policies for the amount of goods transported

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AASB Transition Resource Group for AASB 17 *Insurance Contracts*
Submission form for potential implementation question

In addition to the form, attachments (such as memos) may be included with the submission.

Any public discussion of issues submitted will be without the identification of the submitter's name. Although the submission forms will remain private, please do not include any confidential information in your submission.

Email a PDF of the completed (including any attachments) form to standards@aasb.gov.au.

Submission date	Click here to enter a date.
Name	Antony Claughton
Title	Senior Consultant
Organisation	Finity Consulting
Address	30 Collins Street Melbourne 3000
Telephone	03 8080 0906
Email address	antony.claughton@finity.com.au
Stakeholder group	Preparer
Do you wish to present to the TRG?	I am happy to depending on the date and time

Potential implementation question

The wording of the PAA creates a double count with respect to unpaid premium arising from past service. Where premium is contractually past due, it falls into other IFRS standards. This issue is in respect of unpaid premium attributable to past service that is NOT contractually due at the balance date.

This is particularly relevant to the Australian Health Insurance industry, which would have all entities impacted by this issue. Appendix A sets out a high level overview of how policies work in the Australian Health Insurance industry.

Paragraph of IFRS 17 *Insurance Contracts*

Paragraphs 40(a) and 40(b)

Paragraph 55(b) and Scenario 2 of AP06 from the May 2018 TRG meeting

See Appendices B and C.

Analysis of the question
The analysis of the question should include a detailed description of the different ways the new Standard may be applied, resulting in possible diversity in practice.

GENERAL METHOD
Paragraphs 40(a) and 40(b) make it clear that the Liability for Incurred Claims (LIC) is in respect of past service, and the Liability for Remaining Coverage (LRC) is for future service. The fulfilment cash flows for both are measured applying paragraphs 33-37 and B36-B92.

Paragraph B65(a) specifies that premiums are part of the fulfilment cash flows.

Following the interpretation of Paragraphs 40(a) and 40(b), premium that is in respect of past service should be included in the fulfilment cash flows for the LIC, and premium in respect of future service should be in the fulfilment cash flows for the LRC. Therefore premium still receivable will reduce the liability (or create an asset if of sufficient size) in either the LIC or LRC in conjunction with the cash flows associated with the claims costs relating to either past or future service respectively.

PREMIUM ALLOCATION APPROACH (PAA)

The PAA is the simplification of the General Method. Under the PAA the LIC is calculated in the same manner as under the General Method (Paragraph 59(b) specifies that the LIC under the PAA also is measured applying paragraphs 33-37 and B36-B92). Therefore, premium receivable/in arrears that are in respect of past service should be allowed for in the LIC's fulfilment cash flows, as is the approach under the General Method.

The simplification under the PAA applies to the LRC. Under the PAA the LRC does not directly use the fulfilment cash flows. Instead, the liability is (ignoring acquisition costs, financing components and investment components) the Premiums RECEIVED minus the insurance revenue recognised.

Where the premium is paid in advance, this creates a liability that is wound down to zero as the revenue is earned. Where the premium is paid in arrears, it creates an asset (as insurance revenue is greater than premium received).

However, the PAA rules for the LRC do not distinguish premium between that which is in respect of past service or future service. Therefore, the asset created in the LRC for unpaid premium includes premium in respect of both past and future service. To the degree the rate of recognition of insurance revenue is aligned with the earning of premium, the entire asset may be in respect of past service.

Therefore, the PAA's LRC includes (implicitly) unpaid premium for past service, while the LIC also includes outstanding premium for past service. This will create a double count.

EXAMPLE

Scenario 2 of Agenda item AP06 from the May 2018 International TRG meeting showed a simplified example where premium is paid in arrears, under both current accounting practice and IFRS 17. In the example only the LRC is included. The example was:

Fact Pattern: A contract is issued with a period of insurance coverage 1 July 20X1–30 June 20X2. The contractually agreed premium is CU1,200. Insurance acquisition cash flows of CU180 are paid on 1 July 20X1. The premium is paid at different timing in the three scenarios, under Scenario 2 premium is paid at the end of the coverage period. It assumes, for simplicity, that no claims are incurred (the liability for incurred claims is part of the insurance contract liability or asset).

The results from the paper are shown below.

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2
Existing practice—insurance line items on the statement of financial position and revenue reported					
Premium receivable	1,200	1,200	1,200	1,200	-
Unearned premium reserve (UPR)	(1,200)	(900)	(600)	(300)	-
Deferred acquisition cost (DAC)	180	135	90	45	-
Sum of insurance line items on the statement of financial position (overall asset position)	**180**	**435**	**690**	**945**	**-**
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**

IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported					
Opening balance	-	180	435	690	945
55(a)(i) Premium received on initial recognition	-				
55(a)(ii) Insurance acquisition cash flows	180				
55(b)(i) Premiums received in the period		-	-	-	(1,200)
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**
Closing balance of insurance contract asset / (liability)	**180**	**435**	**690**	**945**	**-**

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Under IFRS 17 and current accounting practice the revenue recognition is identical and the asset position (LRC + cash received) is also identical. It should be noted that at each reporting date after inception, under the IFRS 17 basis the LRC is an asset reflecting the unpaid premium and deferred paid acquisition costs. The asset for unpaid premiums is entirely in respect of past service.

Below is an expanded version of Scenario 2. The new fact pattern is identical to before, except that the LIC is included, and it is assumed there are claim costs recognised of CU200 per quarter, with payment occurring in the subsequent quarter.

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2	30.09.X2
Existing practice—insurance line items on the statement of financial position and revenue reported						
Premium receivable	1,200	1,200	1,200	1,200	-	
Unearned premium reserve (UPR)	(1,200)	(900)	(600)	(300)	-	
Deferred acquisition cost (DAC)	180	135	90	45	-	
Sum of insurance line items on the statement of financial position (overall asset position)	**180**	**435**	**690**	**945**	**-**	**-**
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**	**-**
Expenses for each period (change in DAC)		**45**	**45**	**45**	**45**	**-**
Outstanding Claims Liability	**-**	**(200)**	**(200)**	**(200)**	**(200)**	**-**
Cash Balance <asset> Change	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**
Net Balance Sheet Assets/(Liabilities)	**-**	**235**	**290**	**545**	**800**	**(200)**
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**

	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2	30.09.X2
IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported						
LRC						
Opening balance	-	180	435	690	945	
55(a)(i) Premium received on initial recognition	-					
55(a)(ii) Insurance acquisition cash flows	180					
55(b)(i) Premiums received in the period		-	-	-	(1,200)	
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)	
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**	
Closing balance of LRC asset / (liability)	**180**	**435**	**690**	**945**	**-**	**-**
Insurance expense		**45**	**45**	**45**	**45**	**-**
LIC						
Outstanding Claim Payments	-	(200)	(200)	(200)	(200)	-
Outstanding Premium on Past Service	-	300	600	900	-	-
Closing balance of LIC asset / (liability)	**-**	**100**	**400**	**700**	**(200)**	**-**
Closing balance of insurance contract asset / (liability)	**180**	**535**	**1,090**	**1,645**	**(200)**	**-**
Cash Balance <asset> Change	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**
Net Balance Sheet Assets/(Liabilities)	**-**	**535**	**890**	**1,445**	**800**	**(200)**
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**

Including the LIC, using the PAA creates a double count of the premium receivable asset as the LIC includes in the fulfilment cash flows premium receivable in respect of past service. Although insurance revenue and cash transactions remain identical between the current accounting practice and IFRS 17, the net assets are different.

The difference is due to the double count.

Appendix C includes the excel version of these examples.

There are a number of potential solutions.

POTENTIAL SOLUTION 1: EXCLUDE PREMIUMS FROM LIC FOR PAA

The issue with the PAA can be solved simply by excluding the allowance for unpaid premiums in respect of past service from the LIC. If this is only captured with the LRC, there is no double counting of the component. This could be done by interpreting the LIC as only capturing claims and expenses. It would be assumed B65(a) does not apply in respect of the LIC's fulfilment cash flows.

It can be argued that this is what Scenario 2 of Agenda item AP06 from the May 2018 International TRG is doing – the original example excludes any LIC and the asset for unpaid premiums is recognised in the LRC.

However, while using this solution will remove the double count it will then create a difference in treatment to the General Method. While the General Method would allocate all cash flows related to past service to the LIC, the PAA will not.

The excel workbook attached in Appendix C includes a third example showing the workings of the established fact pattern using this solution and the general method. It shows that while it creates an identical net asset position and revenue recognition between the General Method and the PAA, the split of assets between LIC and LRC is different.

This would mean that Paragraph 53(a) would not hold under these circumstances as the LRC under the PAA would not match the LRC under the General Method.

Therefore, for this solution to be applied either the standard must be edited, or it is accepted that where premium is paid after service and the coverage period is greater than a year, the PAA can't be used to simplify the general method.

POTENTIAL SOLUTION 2: HOLD ALL ALLOWANCES FOR UNPAID PREMIUMS IN THE LRC

If there is no allowance for unpaid premiums in the LIC, there is no double count.

Solution 2 would mean leaving the PAA unchanged, and adjusting the General Method's wording so that all fulfilment cash flows in respect of unpaid premium not due are included in the LRC. This would simplify calculations for the General Method and align the two approaches.

This could also be done by assuming that the LIC is only meant to be in respect of claims and claim expenses. However, it would mean ignoring the wording in paragraph 40 that states the LIC is in respect of past service and the LRC is in respect of future service, as all unpaid premium would be captured in the LRC.

POTENTIAL SOLUTION 3: USE EXISTING PRACTICE

A third solution is to put in place a system that mirrors existing practice.

The General Method and the PAA would be adjusted so that premium is recognised when it is earned. Where premium is earned, has not been paid, and is not yet due, making this change will mean the LIC and LRC show as larger liabilities than under the current IFRS 17 wording. To offset this increase in the liabilities, a Premium Receivable asset will be created. The Premium Receivable asset would include earned premiums which are not yet paid and which are not contractually due at the reporting date.

The Premium Receivable asset could be split by portfolio/groups and included with the LIC and LRC when considering if a group of contracts are an insurance contract asset or a liability. The detailed year to year reconciliations in the disclosures could also be applied to the premium receivables.

This would create consistency between the PAA, General Method and current understanding. It would require reasonable changes to the IFRS 17 standard.

POTENTIAL SOLUTION 4: MODIFY THE PAA'S LRC TO EXCLUDE UNPAID PREMIUM FOR PAST SERVICE

If the PAA's LRC only held a premium asset in respect of future service, this would also remove the double count. The current rules that underpin this element of the PAA are that the liability is Premium Paid – Revenue for Coverage Provided. One of these two elements would need to be adjusted.

Unfortunately, this would probably mean making the wording for the PAA much more complicated. Ensuring any wording change has no impact on insurance revenue would also be critical.

Is the question pervasive?
Explain whether the question is expected to be relevant to a wide group of stakeholders.

It is expected that this will impact any entity with premium receivables in respect of past service. There is an almost certain pervasive impact on the Australian Health Insurance industry, with General and Life insurance practices likely to be impacted in some circumstances.

HEALTH INSURANCE

For Australian health insurers this is likely to relevant and material for most (all?) insurers. This is because of two features of the Australian health insurance industry: the bulk of policies sold are monthly rolling policies which are paid monthly; and the Federal Government rebate which applies to Australian health insurance policies (details explained below) which delays payment of part of the premiums.

The Federal Government rebate is a system to reduce the costs of private health insurance for policy holders. When an Australian resident purchases health insurance, the government will cover part of the premium cost, with the level of subsidy subject to means testing. This can either be taken as a future refundable tax offset or as a reduction in the premium paid. Most Australians choose the later. In that situation, the policyholder pays a reduced premium, and the Federal Government pays the remaining part of the premium to the insurer. The government paid portion of the premium is received in the quarter following the quarter the policyholder made their payment. Usually payment is in the second month of the quarter.

Therefore, there is a lag of between 2 and 4 months between policyholder payment and government payment. Most of these policies are paid monthly, therefore the premium receivable from the government is in respect of past service. Because of this, a material portion of health insurers' premiums for the last quarter before the report date will be typically received 1-2 months after the report date. This will be in respect of past service.

Under the existing accounting standards, the allowance for the government rebate is included in the premium receivables at the reporting date. Under IFRS 17, this will trigger the issue discussed in this submission, and therefore this issue with IFRS 17 is relevant to the entire Australian health insurance industry.

GENERAL AND LIFE INSURANCE

Some General and Life insurers where premium is paid after service may also be impacted, although materiality is likely to be significantly less. For General Insurers, smaller insurers writing specific lines of business may be materially impacted, and insurers focussing on commercial business. Life insurers also write some policies with adjusting premiums.

Examples of areas that might be impacted are:

- Risk Equalisation Mechanism in CTP NSW
- 90 days credit to brokers on commercial classes
- Policies written on a burning cost basis such as may occur with Workers Compensation or Motor Fleet policies
- Policies where the final premium is adjustable on actual consumption. For example:
    - Reinsurance contracts where the final premium is adjustable for premium written
    - Workers Compensation may adjust with final wages
    - Construction annual policies for the cost of projects started
    - Marine Cargo policies for the amount of goods transported

Appendix A – Australian Health Insurance System

In the Australian domestic health insurance system the government provides subsidies to support the take-up of private health insurance. This is the Government Rebate. This rebate can either be claimed via a tax rebate, or at the time of purchase an eligible policyholder can elect to pay a reduced premium with the government paying the rebate to the insurer (the remaining premium). Most policyholders elect the second option.

The government pays all outstanding rebates in the quarter following that in which payment of the premium occurred.

Australian domestic health insurance policies are automatically renewable, and are pre-paid. Policyholders can elect to pay up to 12 months in advance. However, the bulk of policyholders pay on a monthly basis.

As a result, it is typical that an Australian health insurer will have a reasonable outstanding premium receivable from the federal government at the end of each quarter that relates to the premiums paid in the preceding quarter. As the bulk of those premiums are on monthly policies, they relate to past service.

Therefore, at the end of each quarter Australian health insurers will have material outstanding premiums that are not overdue, and are in respect of past service.

Appendix B – Wording from IFRS 17

40 The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:
- (a) the liability for remaining coverage comprising:
  - (i) **the fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92;**
  - (ii) the contractual service margin of the group at that date, measured applying paragraphs 43–46; and
- (b) **the liability for incurred claims, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92.**

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:
- (a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or

55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:
- (a) …..
- (b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:
  - (i) **plus the premiums received in the period;**
  - (ii) minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);
  - (iii) plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);
  - (iv) plus any adjustment to a financing component, applying paragraph 56;
  - (v) **minus the amount recognised as insurance revenue for coverage provided in that period (see paragraph B126);** and
  - (vi) minus any investment component paid or transferred to the liability for incurred claims.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:
- (a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.

B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of coverage:
- (a) on the basis of the passage of time; but
- (b) if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

B127 An entity shall change the basis of allocation between paragraphs B126(a) and B126(b) as necessary if facts and circumstances change.

Appendix C – Example

Please see the attached workbook.

There are three tabs:

1. Tab ‘Original’ – Scenario 2 from AP06 (May 2018 TRG) reproduced with no changes
2. Tab ‘Current Wording’ – adds in the LIC, cash flow and net asset position for the existing rules and the current IFRS 17 exposure draft
3. Tab ‘Solution 1’ – uses the Solution 1 listed above, and also adds in the General Method from IFRS 17

Tab 2 shows that the PAA when the premium is received at the end of the contract creates a double count compared to the existing rules if the LIC includes an allowance for the expected premium on past service.

Tab 3 shows that if Solution 1 of excluding the expected premium for past service from the LIC is applied to the PAA only, it means that the PAA, General Method and existing rules all have the same net asset position, revenue and cash flows. However, the allocation of the net assets between the LIC and the LRC is different for the PAA and the General Method, showing that this solution creates a difference in entities accounts depending on the method used.

Scenario 2 from May 2018 TRG meeting AP06 paper

As was in AP06, unchanged

Premium payments occur at the end of the contract

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2
Existing practice—insurance line items on the statement of financial position and revenue reported					
Premium receivable	1,200	1,200	1,200	1,200	-
Unearned premium reserve (UPR)	(1,200)	(900)	(600)	(300)	-
Deferred acquisition cost (DAC)	180	135	90	45	-
Sum of insurance line items on the statement of financial position (overall asset position)	**180**	**435**	**690**	**945**	**-**
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**

IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported					
Opening balance	-	180	435	690	945
55(a)(i) Premium received on initial recognition	-				
55(a)(ii) Insurance acquisition cash flows	180				
55(b)(i) Premiums received in the period		-	-	-	(1,200)
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**
Closing balance of insurance contract asset / (liability)	**180**	**435**	**690**	**945**	**-**

Notes

Unchanged from what was shown in AP06 Scenario 2

Excludes the journal entries that accompanied the scenario

Scenario 2 from May 2018 TRG meeting AP06 paper - modified to add in LIC

Wording uses current Standard, paragraphs 40(a) & 40(b)

Premium payments occur at the end of the contract
Claims costs are $800, spread evenly, paid one quarter in later than they are occurred

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2	30.09.X2	*Notes*
Existing practice—insurance line items on the statement of financial position and revenue reported							
Premium receivable	1,200	1,200	1,200	1,200	-		
Unearned premium reserve (UPR)	(1,200)	(900)	(600)	(300)	-		
Deferred acquisition cost (DAC)	180	135	90	45	-		
Sum of insurance line items on the statement of financial position (overall asset position)	**180**	**435**	**690**	**945**	**-**	**-**	
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**	**-**	
Expenses for each period (change in DAC)		**45**	**45**	**45**	**45**	**-**	*<= I've added in*
Outstanding Claims Liability	**-**	**(200)**	**(200)**	**(200)**	**(200)**	**-**	***<= I've added in***
Cash Balance <asset> Change	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**	***<= I've added in***
Net Balance Sheet Assets/(Liabilities)	**-**	**235**	**290**	**545**	**800**	**(200)**	*<= I've modified to include cash & outstanding claims assets / (liabilities)*
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**	*<= I've added in*
IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported							
LRC							
Opening balance	-	180	435	690	945		
55(a)(i) Premium received on initial recognition	-						
55(a)(ii) Insurance acquisition cash flows	180						
55(b)(i) Premiums received in the period		-	-	-	(1,200)		
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)		
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**		
Closing balance of LRC asset / (liability)	**180**	**435**	**690**	**945**	**-**	**-**	*<= I've modified the title to be clear this is only the LRC*
Insurance expense		**45**	**45**	**45**	**45**	**-**	*<= I've added in*
LIC							
Outstanding Claim Payments	-	(200)	(200)	(200)	(200)	-	*<= I've added in*
Outstanding Premium on Past Service	-	300	600	900	-	-	*<= I've added in*
Closing balance of LIC asset / (liability)	**-**	**100**	**400**	**700**	**(200)**	**-**	*<= I've added in*
Closing balance of insurance contract asset / (liability)	**180**	**535**	**1,090**	**1,645**	**(200)**	**-**	*<= I've added in*
Cash Balance <asset> Change	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**	***<= I've added in***
Net Balance Sheet Assets/(Liabilities)	**-**	**535**	**890**	**1,445**	**800**	**(200)**	*<= I've modified to include cash & LIC assets / (liabilities)*
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**	*<= I've added in*

Notes

Cash flow and profit recognition are identical

PAA net assets are inflated due to double count

Scenario 2 from May 2018 TRG meeting AP06 paper - added General Method & applied "Solution 1" to PAA

Uses simple modification to approach (no recognition of premium receivable in LIC) to fix double count

Premium payments occur at the end of the contract
Claims costs are $800, spread evenly, paid one quarter in later than they are occurred

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2	30.09.X2	*Notes*
Existing practice—insurance line items on the statement of financial position and revenue reported							
Premium receivable	1,200	1,200	1,200	1,200	-		
Unearned premium reserve (UPR)	(1,200)	(900)	(600)	(300)	-		
Deferred acquisition cost (DAC)	180	135	90	45	-		
Sum of insurance line items on the statement of financial position (overall asse	**180**	**435**	**690**	**945**	**-**	**-**	
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**	**-**	
Expenses for each period (change in DAC)		**45**	**45**	**45**	**45**	**-**	*<= I've added in*
Outstanding Claims Liability	-	(200)	(200)	(200)	(200)	-	*<= I've added in*
Cash Balance <asset> Change							
Total	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**	*<= I've added in*
Net Balance Sheet Assets/(Liabilities)	**-**	**235**	**290**	**545**	**800**	**(200)**	*<= I've modified to include cash & outstanding claims assets / (liabilities)*
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**	*<= I've added in*
IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported							
LRC							
Opening balance	-	180	435	690	945		
55(a)(i) Premium received on initial recognition	-						
55(a)(ii) Insurance acquisition cash flows	180						
55(b)(i) Premiums received in the period		-	-	-	(1,200)		
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)		
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**		
Closing balance of LRC asset / (liability)	**180**	**435**	**690**	**945**	**-**	**-**	*<= I've modified the title to be clear this is only the LRC*
Insurance expense		**45**	**45**	**45**	**45**	**-**	*<= I've added in*
LIC							
Outstanding Claim Payments	-	(200)	(200)	(200)	(200)	-	*<= I've added in*
Outstanding Premium on Past Service							***<= "simple solution" is to set this to zero***
Closing balance of LIC asset / (liability)	**-**	**(200)**	**(200)**	**(200)**	**(200)**	**-**	*<= I've added in*
Closing balance of insurance contract asset / (liability)	**180**	**235**	**490**	**745**	**(200)**	**-**	*<= I've added in*
Cash Balance <asset> Change							
Total	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**	*<= I've added in*
Net Balance Sheet Assets/(Liabilities)	**-**	**235**	**290**	**545**	**800**	**(200)**	*<= I've modified to include cash & LIC assets / (liabilities)*
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**	*<= I've added in*
IFRS 17 General Method (ignoring discounting)							***This section is entirely new***
LRC							
Premium Receivable with respect to Future Service	1,200	900	600	300	-	-	
Expenses Expected for future service							
Claim Costs Expected for future service	(800)	(600)	(400)	(200)	-	-	
CSM	(220)	(165)	(110)	(55)	-	-	
Closing balance of LRC asset / (liability)	**180**	**135**	**90**	**45**	**-**	**-**	
LIC							
Outstanding Claim Payments	-	(200)	(200)	(200)	(200)	-	
Outstanding Premium on Past Service	-	300	600	900	-	-	
Closing balance of LIC asset / (liability)	**-**	**100**	**400**	**700**	**(200)**	**-**	
Closing balance of insurance contract asset / (liability)	**180**	**235**	**490**	**745**	**(200)**	**-**	
Cash Balance <asset> Change							
Total	**(180)**	**-**	**(200)**	**(200)**	**1,000**	**(200)**	
Net Balance Sheet Assets/(Liabilities)	**-**	**235**	**290**	**545**	**800**	**(200)**	
Net Profit and Loss Recognition	**-**	**55**	**55**	**55**	**55**	**-**	

Notes

- *Net Asset position are now identical across PAA, General Method and existing basis*
- *Cash flow and profit recognition are identical across all three*
- *Thre is now a difference in treatment/appearance between the PAA and General Method*
  - *For the PAA, the LRC is an asset and the LIC is a liability*
  - *For the General Method, both the LIC and LRC are assets*