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Impact of Accounting Policy choice on Financial Disclosures

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IND AS 117 Default Measurement Model - GMM

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Under the GMM, insurance contracts are measured using a building-block approach, which involves estimating the present value of future cash flows, the risk adjustment, and the contractual service margin (CSM). This is the default approach under IND AS 117.

Expected cash flows	Yr 1	Yr 2	Total
Premiums	50	50	100
Claims	-25	-25	-50
Directly attributable expenses	-5	-5	-10
Insurance acquisition cost	-20	0	-20
Total	**0**	**20**	**20**
Risk Adjustment			10
Expected CSM			10
Actual cash flows			
Premiums	50	50	100
Claims		-25	-25
Directly attributable expenses	-5	-5	-10
Insurance acquisition cost	-20		-20
Total	**25**	**20**	**45**

Income statement	Yr 1	Yr 2	Total
Expected claims	25	25	50
Directly attributable expenses	5	5	10
Release of the CSM	5	5	10
Recovery of acquisition cost	10	10	20
Release from risk adjustment	5	5	10
Insurance service revenue	**50**	**50**	**100**
Acquisition costs-amortization	-10	-10	-20
Actual claims	-25	-25	-50
Directly attributable expenses	-5	-5	-10
Insurance service expenses	**-40**	**-40**	**-80**
Profit or loss	**10**	**10**	**20**

Balance Sheet		Yr 1	Yr 2
Liabilities			
LRC Excl LC		-10	0
PVFCF	-20	-20	
RA	10	5	
CSM	10	5	
LIC		25	25
PVFCF		25	25
P&L		10	20
Total Liabilities	**0**	**25**	**45**
Assets			
Bank	0	25	45

Assumptions: Claims paid start of next year, expenses paid as they are incurred, discounting has been ignored for simplification

IND AS 117 Default Measurement Model – GMM contd..

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Disclosure	Year 1			Year 2		
	LRC	LIC	Total	LRC	LIC	Total
Opening balance						
Liabilities		0	0	-10	25	15
Assets			0			0
Net Balance	0	0	0	-10	25	15
Insurance Revenue	-50		-50	-50		-50
Insurance Service Exp						
Incurred claims		25	25		25	25
Directly attributable expenses		5			5	
Acquisition cost amortization	10		10	10		10
Insurance Service Exp	10	30	40	10	30	40
Insurance Service Results	-40	30	-10	-40	30	-10
Cash Flows						
Premium received	50		50	50		50
Insurance acquisition cost	-20		-20			0
Incurred claims			0		-25	-25
Directly attributable expenses		-5	-5		-5	-5
Total Cash Flows	30	-5	25	50	-30	20
Net closing balance	-10	25	15	0	25	25
Closing balance						
Liabilities	-10	25	15	0	25	25
LRC PVFCF	-10		-10	0		0
LIC PVFCF		25	25		25	25
Assets			0			0
Net Balance	-10	25	15	0	25	25

Optional Measurement Model - PAA

The PAA is a simplified approach which can be used for certain insurance contracts that meet specific criteria. It is an alternative to the GMM and is designed for contracts with short coverage periods and limited risk.

	Amount
Premium	100
Claims	-50
Expenses	-10
Acquisition cost	-20
Total	**20**

Assumptions: Contract duration 1 year and claims paid at the end of year

Income statement	H1	H2	Amount
Revenue from risk expired	50	50	100
Insurance service revenue	**50**	**50**	**100**
Incurred Claims	-25	-25	-50
Incurred expenses	-5	-5	-10
Amortisation of Acq cost	-10	-10	-20
Insurance service expenses	**-40**	**-40**	**-80**
Profit or loss	**10**	**10**	**20**

Balance Sheet	H1	H2
Liabilities		
LFRC	40	0
LIC	30	0
P&L	10	20
Total Liabilities	**80**	**20**
Assets		
Bank	80	20
Total Assets	**80**	**20**

Disclosure	H1			H2		
	LRC	LIC	Total	LRC	LIC	Total
Opening balance						
LFRC	-		-	40		40
LIC		-	-		30	30
Net Balance	**-**	**-**	**-**	**40**	**30**	**70**
Insurance Revenue	**(50)**		**(50)**	**(50)**		**(50)**
Insurance Service Exp						
Incurred claims		25	25		25	25
Directly attributable expenses		5	5		5	5
Acquisition cost amortization	10		10	10		10
Insurance Service Exp	**10**	**30**	**40**	**10**	**30**	**40**
Insurance Service Result	**(40)**	**30**	**(10)**	**(40)**	**30**	**(10)**
Cash Flows						
Premium received	100		100			-
Insurance acquisition cost	(20)		(20)			-
Claims paid			-		(50)	(50)
Directly attributable expenses			-		(10)	(10)
Total Cash Flows	**80**	**-**	**80**	**-**	**(60)**	**(60)**
Closing balance						
LFRC	40		40	-		-
LIC		30	30		-	-
Net Balance	**40**	**30**	**70**	**-**	**-**	**-**

Accounting Policy Choice - PAA acquisition cost
Option 1 – Expense off immediately

As per IND AS 117 para 59 (a), in applying the Premium Allocation Approach (PAA), an entity may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.

	Amount
Premium	100
Claims	-50
Expenses	-10
Acquisition cost	-20
Total	**20**

Assumptions: An insurance contract starts on 1-Jan-23, contract duration 10 months, claims paid at the end of contract

Income statement	H1	H2
Revenue from risk expired	60	40
Insurance service revenue	**60**	**40**
Incurred Claims	-30	-20
Incurred expenses	-6	-4
Acquisition cost	-20	
Insurance service expenses	**-56**	**-24**
Profit or loss	**4**	**16**

Balance Sheet	H1	H2
Liabilities		
LFRC	40	-
LIC	36	-
P&L	4	20
	80	**20**
Assets		
Bank	80	20
	80	**20**

Disclosure	H1			H2		
	LFRC	LIC	Total	LFRC	LIC	Total
Opening balance						
LFRC	-		-	40	36	76
LIC		-	-		-	-
Net Balance	**-**	**-**	**-**	**40**	**36**	**76**
Insurance Revenue	**(60)**		**(60)**	**(40)**		**(40)**
Insurance Service Exp						
Incurred claims		30	30		20	20
Directly attributable expenses		6	6		4	4
Acquisition cost	20		20			-
Insurance Service Exp	**20**	**36**	**56**	**-**	**24**	**24**
Insurance Service Result	**(40)**	**36**	**(4)**	**(40)**	**24**	**(16)**
Cash Flows						
Premium received	100		100			-
Insurance acquisition cost	(20)		(20)			-
Claims paid			-		(50)	(50)
Directly attributable expenses			-		(10)	(10)
Total Cash Flows	**80**	**-**	**80**	**-**	**(60)**	**(60)**
Closing balance						
LFRC	40		40	-		-
LIC		36	36		-	-
Net Balance	**40**	**36**	**76**	**-**	**-**	**-**

Accounting Policy Choice - PAA acquisition cost
Option 2 – Amortization of acquisition cost

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In applying the Premium Allocation Approach (PAA), an entity may choose not to recognise any insurance acquisition cash flows as expenses when it incurs those costs, rather amortize them over the life of contract

	Amount
Premium	100
Claims	-50
Expenses	-10
Acquisition cost	-20
Total	**20**

Assumptions: An insurance contract starts on 1-Jan-23, contract duration 10 months, claims paid at the end of contract

Income statement	H1	H2
Revenue from risk expired	60	40
Insurance service revenue	**60**	**40**
Incurred Claims	-30	-20
Incurred expenses	-6	-4
Acquisition cost	-12	-8
Insurance service expenses	**-48**	**-32**
Profit or loss	**12**	**8**

Balance Sheet	H1	H2
Liabilities		
LFRC	32	-
LIC	36	-
P&L	12	20
	80	**20**
Assets		
Bank	80	20
	80	**20**

Disclosure	H1			H2		
	LFRC	LIC	Total	LFRC	LIC	Total
Opening balance						
LFRC	-		-	32	36	68
LIC		-	-		-	-
Net Balance	**-**	**-**	**-**	**32**	**36**	**68**
Insurance Revenue	**(60)**		**(60)**	**(40)**		**(40)**
Insurance Service Exp						
Incurred claims		30	30		20	20
Directly attributable expenses		6	6		4	4
Acquisition cost amortisation	12		12	8		8
Insurance Service Exp	**12**	**36**	**48**	**8**	**24**	**32**
Insurance Service Result	**(48)**	**36**	**(12)**	**(32)**	**24**	**(8)**
Cash Flows						
Premium received	100		100			-
Insurance acquisition cost	(20)		(20)			-
Claims paid			-		(50)	(50)
Directly attributable expenses			-		(10)	(10)
Total Cash Flows	**80**	**-**	**80**	**-**	**(60)**	**(60)**
Closing balance						
LFRC	32		32	-		-
LIC		36	36		-	-
Net Balance	**32**	**36**	**68**	**-**	**-**	**-**

Allocation of revenue and acquisition expenses

	M1	M2	M3	M4	M5	M6	Total
Premium	100.0	90.0	80.0	70.0	60.0	50.0	
Acq Cost	-20.0	-18.0	-16.0	-14.0	-12.0	-10.0	
LFRC	80.0	72.0	64.0	56.0	48.0	40.0	
Allocation to Revenue	10.0	10.0	10.0	10.0	10.0	10.0	60.0
Amortization to Acq Exp	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-12.0

Accounting Policy Choice
PAA with Significant Finance Component

As per IND AS 117 para 56, if insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition.
The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services and the related premium due date is no more than a year.

An insurance contract has -	
Single premium	1000
Acquisition cost	200
Claims	600
Expenses	100
Risk free rate	5%

Income statement	Amount
Revenue from expired risk	1040
Insurance service revenue	**1040**
Incurred claims	-600
Expenses	-100
Amortization of acquisition expenses	-200
Insurance service expenses	**-900**
Insurance Service Result	**140**
Insurance Finance Expneses	-40
Investment income	40
Profit & (Loss)	**140**

Balance Sheet	Amount
Liabilities	
LRC	-
LIC	700
P&L	140
Total Liabilities	**840**
Bank	840
Total Assets	**840**

PAA	with SFC LRC
Initial measurement	
Premium received	1000
Initial acquisition cost	-200
Subsequent measurement	
Opening balance	800
SFC (as per para 56)	40
Amortization of acquisition cost	200
Release to revenue	**-1040**

Disclosure	LRC	LIC	Total
Opening balance			
Net Balance	0	0	0
Insurance Revenue	-1040		-1040
Insurance Service Exp			
Incurred claims		600	600
Directly attributable expenses		100	100
Acquisition cost amortization	200		200
Insurance Service Exp	200	700	900
Insurance Service Results	-840	700	-140
IFE	40		40
Cash Flows			
Premium received	1000		1000
Insurance acquisition cost	-200		-200
Incurred claims			0
Directly attributable expenses			0
Total Cash Flows	800	0	800
Net closing balance	0	700	700
Closing balance			
Liabilities	0	700	700
LRC	0		0
LIC		700	700
Assets			0
Net Balance	0	700	700

As per the definition and explanation provided in Canadian Institute of Actuaries (Paper published in June 2022, Document 222092)
The notion of significant financing component is covered in IFRS 15.60/61.

Accounting Policy Choice
PAA without Significant Finance Component

As per IND AS 117 para 56, if insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition.
The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services and the related premium due date is no more than a year.

Income statement	Amount
Revenue from expired risk	1000
Insurance service revenue	**1000**
Incurred claims	-600
Expenses	-100
Amortization of acquisition expenses	-200
Insurance service expenses	**-900**
Insurance Service Result	**100**
Insurance Finance Expneses	0
Profit & (Loss)	**100**

Balance Sheet	Amount
Liabilities	
LRC	-
LIC	700
P&L	100
Total Liabilities	**800**
Assets	
Bank	800
Total Assets	**800**

Disclosure	LRC	LIC	Total
Opening balance			
Net Balance	0	0	0
Insurance Revenue	-1000		-1000
Insurance Service Exp			
Incurred claims		600	600
Directly attributable expenses		100	100
Acquisition cost amortization	200		200
Insurance Service Exp	200	700	900
Insurance Service Results	-800	700	-100
IFE	0		0
Cash Flows			
Premium received	1000		1000
Insurance acquisition cost	-200		-200
Incurred claims			0
Directly attributable expenses			0
Total Cash Flows	800	0	800
Net closing balance	0	700	700
Closing balance			
Liabilities	0	700	700
LRC	0		0
LIC		700	700
Assets			0
Net Balance	0	700	700

Assuming the same insurance contract as the previous example

Accounting Policy Choice
PTD vs YTD Approach- Option 1- YTD Approach

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As per IND AS 117 para B137, if an entity prepares interim financial statements applying IAS 34 Interim Financial Reporting, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.

Expected cash flows	Year 1	Year 2	Total
Premiums	100	100	200
Claims	-50	-50	-100
Directly attributable expenses	-20	-20	-40
Insurance acquisition cost	-20	0	-20
Total	**10**	**30**	**40**
Expected CSM			**40**

Actual cash flows-Year 1	H1	H2	Year 1
Premiums	50	50	100
Claims	-25	-32.5	-57.5
Directly attributable expenses	-10	-10	-20
Insurance acquisition cost	-20		-20
Total	**-5**	**7.5**	**2.5**

Income statement (Year 1)	H1	H2	Total
Expected claims	25	32.5	57.5
Directly attributable expenses	10	10	20
Release of the CSM	10	2.5	12.5
Recovery of acquisition cost	5	5	10
Insurance service revenue	**50**	**50**	**100**
Acquisition costs-amortization	-5	-5	-10
Actual claims	-25	-32.5	-57.5
Directly attributable expenses	-10	-10	-20
Insurance service expenses	**-40**	**-47.5**	**-87.5**
Profit or loss	**10**	**2.5**	**12.5**

CSM Walk	H1	H2
CSM for the period	40	40
CSM released in H1	-10	
Exp Adj		-15
CSM release for Year 1		-12.5
CSM Release for H2		-2.5
Balance B/F	**30**	**12.5**

Accounting Policy Choice
PTD vs YTD Approach- Option 1- YTD Approach contd..

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Balance Sheet	Year 1
Liabilities	
LRC Excl LC	-10
PVFCF	-22.5
CSM	12.5
LIC	32.5
PVFCF	32.5
P&L	12.5
Total Liabilities	**35**
Assets	
Bank	35
Total Assets	**35**

Disclosure	Year 1		
	LRC	LIC	Total
Opening balance			
Net Balance	0	0	0
Insurance Revenue	-100		-100
Insurance Service Exp			
Incurred claims		57.5	57.5
Directly attributable expenses		20	20
Acquisition cost amortization	10		10
Insurance Service Exp	10	77.5	87.5
Insurance Service Results	-90	77.5	-12.5
Cash Flows			
Premium	100		100
Incurred claims		-25	-25
Acquisition cost paid	-20		-20
Directly attributable expenses		-20	-20
Total Cash Flows	80	-45	35
Net closing balance	-10	32.5	22.5
Closing balance			
Liabilities	10	-32.5	-22.5
LRC	10		10
LIC		-32.5	-32.5
Assets			0
Net Balance	10	-32.5	-22.5

Accounting Policy Choice
PTD vs YTD Approach- Option 2- PTD Approach

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Expected cash flows	Year 1	Year 2	Total
Premiums	100	100	200
Claims	-50	-50	-100
Directly attributable expenses	-20	-20	-40
Insurance acquisition cost	-20	0	-20
Total	**10**	**30**	**40**
Expected CSM			**40**

CSM Walk	Amount
CSM for the year	40
CSM released in H1	-10
Opening Bal for H2	30
Experience Adj	-15
CSM released for H2	-5
Balance carried to Year 2	**10**

Actual cash flows-Year 1	H1	H2	Year 1
Premiums	50	50	100
Claims	-25	-30	-55
Directly attributable expenses	-10	-10	-20
Insurance acquisition cost	-20		-20
Total	**-5**	**10**	**5**

Assumptions:
1. Claims are paid in next quarter, expenses paid as they are incurred, discounting has been ignored for simplification
2. In the month of July, there is a change in claims expectation by 15 over the contract term. i.e. (remaining expected claim increased from 75 to 90)

Income statement (Year 1)	H1	H2	Total
Expected claims	25	30	55
Directly attributable expenses	10	10	20
Release of the CSM	10	5	15
Recovery of acquisition cost	5	5	10
Insurance service revenue	**50**	**50**	**100**
Acquisition costs-amortization	-5	-5	-10
Actual claims	-25	-30	-55
Directly attributable expenses	-10	-10	-20
Insurance service expenses	**-40**	**-45**	**-85**
Profit or loss	**10**	**5**	**15**

Balance Sheet	Year 1
Liabilities	
LRC Excl LC	-10
PVFCF	-20
CSM	10
LIC	30
PVFCF	30
P&L	15
Total Liabilities	**35**
Assets	
Bank	35
Total Assets	**35**

Accounting Policy Choice
PTD vs YTD Approach- Option 2- PTD Approach contd..

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Disclosure	Year 1		
	LRC	LIC	Total
Opening balance			
Liabilities		0	0
Assets			0
Net Balance	0	0	0
Insurance Revenue	-100		-100
Insurance Service Exp			
Incurred claims		55	55
Directly attributable expenses		20	20
Acquisition cost amortization	10		10
Insurance Service Exp	10	75	85
Insurance Service Results	-90	75	-15
Cash Flows			
Premium	100		100
Incurred claims		-25	-25
Acquisition cost paid	-20		-20
Directly attributable expenses		-20	-20
Total Cash Flows	80	-45	35
Net closing balance	-10	30	20
Closing balance			
Liabilities	10	-30	-20
LRC	10		10
LIC		-30	-30
Assets			0
Net Balance	10	-30	-20

Accounting Policy Choice
Presentation of Reinsurance income/expenses

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IND AS 117, para 86 gives an option to present the income or expenses from a group of reinsurance contracts held (see para 60–70A), other than insurance finance income or expenses, as a single amount or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount.

Cash flows	Amount
RI Premium	100
Claims recoveries	-50
Total	**50**

Option 1- Result from reinsurance contracts held is shown on a Net Basis

Income statement	H1	H2
Insurance revenue		
Insurance service expenses		
Net income (expense) from reinsurance contracts held	30	20
Insurance service result	30	20

Option 2- Result from reinsurance contracts held is shown on a Gross basis

Income statement	H1	H2
Insurance revenue		
Insurance service expenses		
Income (expense) from reinsurance contracts held		
Allocation of reinsurance premiums paid	60	40
Amounts recovered from the reinsurer	30	20
Insurance service result	30	20

Accounting Policy Choice
Presentation of Insurance finance income & expense
Disaggregation of IFE into PL and OCI

IND AS 117, para 88 gives an option to include (a) including insurance finance income or expenses for the period in profit or loss; or (b) disaggregating insurance finance income or expenses for the period, to include in profit or loss an amount determined by a systematic allocation of the expected total IFE over the duration of the group of contracts, applying paragraphs B130–B133.

An insurance contract has -	
Single premium	1000
Acquisition cost	200
Claims	600
Expenses	100
Risk free rate	3%
Actual rate of interest	5%

Income statement	Amount
Expected claims	600
Expected expenses	100
Recovery of acquisition cost	200
Amortization of CSM	140
Insurance service revenue	**1040**
Incurred claims	-600
Expenses	-100
Amortization of acquisition expenses	-200
Insurance service expenses	**-900**
Insurance Service Result	**140**
Insurance Finance Expenses	-24
Investment income	24
Profit & (Loss)	**140**
OCI	
Gain/Loss on Insurance contract	-16
Gain/Loss on Financial Asset	16
Total	**140**

Balance Sheet	Amount
Liabilities	
LRC	(0)
LIC	700
P&L	140
Total Liabilities	**840**
Assets	
Bank	840
Total Assets	**840**

Accounting Policy Choice

Presentation of Insurance finance income & expense

Disaggregation of IFE into PL and OCI contd..

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Disclosure	LRC	LIC	Total
Opening balance			
Net Balance	0	0	0
Insurance Revenue	-1040		-1040
Insurance Service Exp			
Incurred claims		600	600
Directly attributable expenses		100	100
Acquisition cost amortization	200		200
Insurance Service Exp	200	700	900
Insurance Service Results	-840	700	-140
IFE	40		40
Cash Flows			
Premium received	1000		1000
Insurance acquisition cost	-200		-200
Incurred claims			0
Directly attributable expenses			0
Total Cash Flows	800	0	800
Net closing balance	0	700	700
Closing balance			
Liabilities	0	700	700
LRC	0		0
LIC		700	700
Assets			0
Net Balance	0	700	700

Accounting Policy Choice
LIC Discounting PAA

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When the premium allocation approach is applied, an entity may be required, or may choose to discount the liability for incurred claims. In such cases, it may also choose to disaggregate the insurance finance income or expenses.

	Amount
Premium	100
Claims	-50
Expenses	-10
Acquisition cost	-20
Total	**20**

Assumptions: Contract duration 1 year and claims paid at the end of year

Income statement	H1	H2	Amount
Revenue from risk expired	50	50	100
Insurance service revenue	**50**	**50**	**100**
Incurred Claims	-25	-25	-50
Incurred expenses	-5	-5	-10
Amortisation of Acq cost	-10	-10	-20
Insurance service expenses	**-40**	**-40**	**-80**
Insurance Finance Expenses	-1.5	-1.5	-3
Investment income	1.5	1.5	3
Profit or loss	**10**	**10**	**20**

Balance Sheet	H1	H2
Liabilities		
LFRC	40	0
LIC	31.5	1.5
P&L	10.0	20.0
Total Liabilities	81.5	21.5
Assets		
Bank	81.5	21.5
Total Assets	81.5	21.5

Disclosure	H1			H2		
	LRC	LIC	Total	LRC	LIC	Total
Opening balance						
LFRC	-		-	40		40
LIC		-	-		32	32
Net Balance	**-**	**-**	**-**	**40**	**32**	**72**
Insurance Revenue	**(50)**		**(50)**	**(50)**		**(50)**
Insurance Service Exp						
Incurred claims		25	25		25	25
Directly attributable expenses		5	5		5	5
Acquisition cost amortization	10		10	10		10
Insurance Service Exp	**10**	**30**	**40**	**10**	**30**	**40**
Insurance Service Result	**(40)**	**30**	**(10)**	**(40)**	**30**	**(10)**
IFE		1.5			1.5	
Cash Flows						
Premium received	100		100			-
Insurance acquisition cost	(20)		(20)			-
Claims paid			-		(51)	(51)
Directly attributable expenses			-		(10)	(10)
Total Cash Flows	**80**	**-**	**80**	**-**	**(62)**	**(62)**
Closing balance						
LFRC	40		40	-		-
LIC		32	32		1.5	1.5
Net Balance	**40**	**32**	**72**	**-**	**1.5**	**1.5**

Other Accounting Policy Choices

Choice to allow for application of IFRS 17 or IFRS 15
IND AS 117.8 & BC 97

Some entities issue both fixed-fee service contracts and other insurance contracts. For example, some entities issue both roadside assistance contracts and insurance contracts for damage arising from accidents. The Board decided to allow entities a choice of whether to apply IFRS 17 or IFRS 15 to fixed-fee service contracts to enable such entities to account for both types of contract in the same way.

Period of cohort- contracts can be grouped into any period of one year or less e.g quarterly
IND AS 117.22

An entity shall not include contracts issued more than one year apart in the same group

Additional Slides

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Accounting Treatment – Loss component under GMM

Expected cashflows	Year 1
Premiums	100
Claims	-70
Directly attributable expenses	-30
Insurance acquisition cost	-20
Total	**-20**
Loss component	-20

Initial LC	
LRC Ex LC	**LC**
80	20
-56	-14
-24	-6

Income Statement	Amount
Expected claims	70
Directly attributable expenses	30
Recovery of acquisition cost	20
Systematic allocation to loss component	-20
Insurance service revenue	**100**
Actual claims	-70
Directly attributable expenses	-30
Acquisition costs-amortization	-20
Loss component	-20
Systematic allocation to loss component	20
Insurance service expenses	**-120**
Profit or loss	**-20**

Balance Sheet	Amount
Liabilities	
LRC Excl LC	0
LRC LC	0
LIC	100
Total Liabilities	**100**
Assets	
Bank	80
P&L	20
Total Assets	**100**

Assumptions: Claims and expenses are paid at the start of next year, acquisition expenses are paid as incurred

Accounting Treatment – Loss component under GMM contd..

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Disclosure (Year 1)	LRC		LIC	Total
	Excl LC	LC		
Opening balance				
Net Balance	0	0	0	0
Insurance Revenue	-100			-100
Insurance Service Exp				
Incurred claims			70	70
Directly attributable expenses			30	30
Acquisition cost amortization	20			20
Loss component		20		20
Systematic allocation to loss component		-20		-20
Insurance Service Exp	20	0	100	120
Insurance Service Results	-80	0	100	20
Cash Flows				
Premium received	100			100
Insurance acquisition cost	-20			-20
Directly attributable expenses				0
Total Cash Flows	80	0	0	80
Net closing balance	0	0	100	100
Liabilities				
LRC ex LC	0			0
LRC LC		0		0
LIC			100	100
Closing balance	0	0	100	100

Accounting Treatment – Loss component under PAA

	Amount
Premium	100
Claims	-70
Expenses	-30
Acquisition cost	-20
Loss component	**-20**

Income statement	Amount
Revenue from risk expired	100
Insurance service revenue	**100**
Incurred Claims	-70
Incurred expenses	-30
Amortisation of Acq cost	-20
Loss component	-20
Systematic allocation of Loss component	20
Insurance service expenses	**-120**
Profit or loss	**-20**

Balance Sheet	Amount
Liabilities	
LFRC	-
LIC	100
Total Liabilities	**100**
Assets	
Bank	(80)
P&L	(20)
Total Assets	**(100)**

Disclosure	LFRC	LIC	Total
Opening balance			
Net Balance	-	-	-
Insurance Revenue	(100)	-	(100)
Insurance Service Exp			
Incurred claims		70	70
Directly attributable expenses		30	30
Acquisition cost amortization	20		20
Loss component	20		20
Systematic allocation of Loss component	(20)		(20)
Insurance Service Exp	**20**	**100**	**120**
Insurance Service Result	**(80)**	**100**	**20**
Cash Flows			
Premium received	100	-	100
Insurance acquisition cost	(20)	-	(20)
Claims paid		-	-
Directly attributable expenses		-	-
Total Cash Flows	**80**	-	**80**
Closing balance			
Net Balance	-	**100**	**100**

Assumptions: Contract duration 1 year and claims paid at the end of year