FA Module 23: IFRS 17 premium allocation approach and reinsurance contracts held (overview)

(The attached PDF file has better formatting.)

This module covers

- the premium allocation approach
- accounting for reinsurance contracts held

The premium allocation approach is a simplified measure for insurance contracts with specified attributes. Contract boundaries, variability in the cash flows, embedded derivatives, and the length of the coverage period determine whether the premium allocation approach may be used. The final exam problem will tell you if the contract is measured by the premium allocation approach.

Measurement at initial recognition using the premium allocation approach is similar to the procedures in SFAS 60 for short duration contracts. Measurement of the liability for incurred claims uses present values, unless the expected claim lag is no more than one year. The insurer has options for using present values or nominal values for claims with short lags and of capitalizing vs charging to expenses the acquisition costs. Know how the insurance contract liability and the contractual service margin depends on these two options.

Reinsurance contracts held by a primary insurer are covered by IFRS 17. The procedures are inverses of those for primary insurance contracts, with two differences:

- reinsurance contracts held have a net gain or loss at initial recognition, not unearned profit.
- reinsurance contracts held are subject to non-performance risk, which affects the fulfilment cash flows. Non-performance risk (credit risk) affects reinsurance contracts held, not reinsurance contracts issued.

The exam problems replicate the illustrations in the postings on the discussion forum.