

FA Module 21: Insurance contracts: IFRS 17 general measurement approach – homework assignment

(The attached PDF file has better formatting.)

*Homework assignment:* Measurement on initial recognition

An insurer issues insurance contracts on December 31, 20X0, with coverage periods of three years.

- ! Premiums of 400 are paid right after initial recognition.
- ! The discount rate for the fulfilment cash flows is 8% *per annum*.
- ! Directly attributable acquisition costs are zero.
- ! No contracts lapse before the end of the contract period.
- ! Insurance protection is provided evenly over the contract period.

The insurer estimates the cash outflows for claims as 120 each on December 31, 20X1, 20X2, and 20X3.

At initial recognition, the insurer's risk adjustment for non-financial risk is 60, or 20 for each year's claims.

At initial recognition (before the premium is paid):

- A. What is the present value of the expected future cash inflows?
- B. What is the present value of the expected future cash outflows?
- C. What is the present value of the expected net cash inflows?
- D. What are the fulfilment cash flows?
- E. What is the contractual service margin?
- F. What is the insurance contract liability?
- G. What is the entry in the statement of profit or loss?

Right after the premium is collected:

- H. What are the fulfilment cash flows?
- I. What is the contractual service margin?
- J. What is the insurance contract liability?
- K. What is the entry in the statement of profit or loss?

*Compare your solution with the practice problems on the discussion forum. The figures differ, but the relations are the same.*