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

Final exam problems test the general measurement approach for direct business, not the premium allocation approach or the IFRS 17 rules for reinsurance contracts held. This module is for reinsurance actuaries and for actuaries pricing short duration contracts, but it is *not* tested on the final exam. The premium allocation approach is similar to GAAP for short duration insurance contracts, which is covered in a previous module.

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 GAAP modules cover short duration motor insurance contracts; the IFRS modules cover long duration life insurance contracts. Both GAAP and IFRS cover all insurance contracts, but this course choose parts of each accounting system.

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. The insurance contract liability and the contractual service margin depend 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.