FA Module 23: IFRS 17 premium allocation approach & reinsurance – homework assignment

(The attached PDF file has better formatting.)

An insurer writes primary contracts on January 1, 20X1, and buys an 80% proportional reinsurance contract covering the risks. The premiums on the underlying contracts and on the reinsurance contract are paid right after initial recognition. At initial recognition:

!   the fulfilment cash flows on the primary contracts = 100
!   the contractual service margin on the primary contracts = 40
!   the contractual service margin on the reinsurance contract = –30

The reinsurance contract is priced differently from the underlying contracts, so its contractual service margin is not –80% × the contractual service margin on the underlying contracts.

On December 31, 20X1, the insurer re-measures the fulfilment cash flows on the underlying contracts as 110. The change in the fulfilment cash flows relates to future services, not incurred claims.

A.   What is the insurance contract liability on the underlying contracts before the re-measurement?
B.   What is the change in the fulfilment cash flows on the underlying contracts?
C.   What is the revised contractual service margin on the underlying contracts?
D.   What is the profit or loss (in the statement of profit and loss) for the underlying contracts?
E.   What is the revised insurance contract liability on the underlying contracts?
F.   What are the fulfilment cash flows on the reinsurance contract held before the re-measurement?
G.   What is the insurance contract asset on the reinsurance contract held before the re-measurement?
H.   What is the change in the fulfilment cash flows on the reinsurance contract held?
I.   What is the revised contractual service margin on the reinsurance contract held?
J.   What is the profit or loss (in the statement of profit and loss) for the reinsurance contract held?
K.   What is the revised insurance contract asset on the reinsurance contract held?

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