IFRS 17 ONLINE EXAM

Welcome to the IFRS 17 Online Exam!

Following our training, this exam is designed to assess your understanding of the IFRS 17 Standard.

Your performance will help us gauge the effectiveness of the training.

The Exam will take few minutes of your time to complete and your responses are essential in confirming your knowledge.

Thank you for your participation and commitment!

Exam Questions
15 questions (50 marks)

* 1. Please enter your name

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SECTION I: INTRODUCTION

* 5. What is global date of Initial Application of IFRS 17 for insurance companies under National Insurance Commission's supervision? When did IFRS 17 Standard start applying? (1 mark)

- 31 Dec 2023
- 1 Jan 2022
- 1 Jan 2023
- 31 Dec 2021

* 6. When the National Insurance Commission (NIC) is supervising insurers, which of the methods below does it NOT expect to see as an IFRS 17 application method? (1 mark)

- Premium Allocation Approach
- General Allocation Approach
- General Measurement Model
- Variable Fee Approach

* 7. Which Balance Sheet entry item below is NOT expected to be shown by an insurer while implementing IFRS 17? (1 mark)

- Insurance Contract Liabilities
- Premium Receivables from Policyholders
- Reinsurance Contract Assets
- Insurance Contract Assets

* 8. Which Profit & Loss entry item below is NOT expected to be shown by an insurer while implementing IFRS 17? (1 mark)

- Gross Written Premium
- Management Expenses
- Commissions (Insurance Acquisition Costs)
- Incurred Claims

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SECTION II: CONCEPTS

* 9. IFRS 17 requires that the insurer establishes a new reserve called Contractual Service Margin (“CSM”). What does this reserve represent? (2 marks)

- a. Unpaid Claims
- b. Unearned Profit
- c. Earned Premium
- d. Risk Adjustment

* 10. The Risk Adjustment margin for non-financial risks can be considered as (2 marks)

- a. Part of Gross Written Premium
- b. Part of Shareholder Funds
- c. Part of Premium & Claims Reserves
- d. Part of Intangible Assets

* 11. The Liability for Incurred Claims (LIC) is composed of (2 marks)

- Liability for Remaining Coverage & Risk Adjustment Margin
- Outstanding Claim Reserves and Incurred But Not Reported Reserves & Risk Adjustment for Non-Financial Risks
- Contractual Service Margin & Risk Adjustment Margin for Non-Financial Risks
- Premium & Risk Adjustment Margin for Non-Financial Risks

* 12. How does IFRS 17 Standard expect the insurer and the National Insurance Commission to monitor how the discounting of cashflows is being unwound as the payment date gets closer? (2 marks)

- Through Contractual Service Margin
- Through Insurance Finance Expense
- Through Risk Adjustment Margin for Non-Financial Risks
- Through Shareholder Funds

* 13. If all the policyholders fully pay their premium on time, the “Insurance Revenue” of a General Insurance Company can be compared to (2 marks)

- Gross Written Premium
- Gross Earned Premium
- Net Earned Premium
- New Written Premium

* 14. IFRS17 has a new view on how reinsurance contracts should be treated. The spirit of the new approach is (2 marks)

- Combine all reinsurance cashflows and policyholder cashflows to get a net position.
- Separate all reinsurance cashflows from policyholder cashflows and report the net cost of reinsurance separately.
- Combine only premium reinsurance cashflows and policyholder cashflows and separate claims cashflows.
- Combine only claims reinsurance cashflows and policyholder cashflows and separate premium cashflows.

* 15. IFRS 17 has a made some changes to how claim reserves should be treated when it comes to time value of money. The spirit of the new approach is (2 marks)

- The insurer has the choice of discounting or not regardless of when the claim is expected to be paid
- All claims expected to be paid after a year should be discounted and those expected to be paid in less than one year should also be discounted.
- All claims expected to be paid after a year should be discounted and those expected to be paid in less than one year (can be discounted or not depending on the choice of the insurer)
- All claims must be discounted regardless of expected payment date.

* 16. Some people say adoption of IFRS 17 should be encouraged by regulators, such as National Insurance Commission (NIC), because it encourages CASH and CARRY by (2 marks)

- Not considering Premium Receivables in the Balance Sheet
- Ignoring Uncollected Premium in Income
- It considers premium only if claims have been paid
- It discounts claims

* 17. When an insurer discounts its liabilities at a higher rate than what it expecting to earn, the National Insurance Commission (NIC) can easily detect this in the Profit & Loss Account by looking at (2 marks)

- Insurance Revenue
- Insurance Service Expenses
- Net Financial Results
- Insurance Service Results

* 18. Under the General Measurement Model (GMM), the insurance contract liabilities or assets are composed of (2 marks)

- ◯ Liability for Remaining Coverage & Risk Adjustment Margin
- ◯ Liability for Remaining Coverage & Liability for Incurred Claims
- ◯ Contractual Service Margin & Liability for Incurred Claims
- ◯ Premium, Outstanding Claim Reserves and Incurred But Not Reported Reserves

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SECTION III: PRACTICAL

Case Study Question

In the virtual world of Wakanda, there are two companies called GoodInsurer and BadInsurer. The government of Wakanda has managed to keep interest rates at zero percent (0%) for all bonds. The people are flourishing and very happy. The Currency of Wakanda is Wsh.

GoodInsurer has launched a 5-Year endowment life insurance product which pays either a death benefit or a maturity benefit of Wsh 1,000,000. The cost of the product is a premium of Wsh 400,000 per annum.

The product is exclusively sold to retired footballers, athletes & other professionals who retire at age 40 years.

The Government Actuary of Wakanda, Mr Challa, is mandated to sets the mortality rates and has said that each policyholder who is age 40-45 years should contribute Wsh 200,000 per year to make the product sustainable.

In addition, based on the risk appetite of the Shareholders of GoodInsurer, the Risk Adjustment for Non-Financial was set at Wsh 50,000. The Board now feels that they are 85% sure that the cost per policyholder will not exceed Wsh 250,000 per year (Wsh 200,000 as the cost of claims (as the estimate provided by the Government Actuary) + Wsh 50,000 for the Risk Adjustment Margin to give the investors comfort that their profits are protected). They expect to release Wsh 10,000 from the Risk Adjustment Margin every per year if there are no significant claims).

GoodInsurer uses internal staff to sell its product. The entire department earns a salary of Wsh 1 billion per year. In addition, Management has told the Board that expenses that can be attributable to this product are Wsh 2 billion while other overheads which cannot be attributable to this product are Wsh 3 billion.

Based on the sales projection, each product will be allocated Wsh 50,000 in the first year only for acquisition costs (commission payable) and Wsh 100,000 every year in attributable expenses.

The Board asked what the theoretical non-attributable expenses of Wsh 3 billion would mean for the product and they were informed that this would be Wsh 200,000 per product.

GoodInsurer sold 10,000 policies in the first year and sent the usual end of year report to the Insurance Regulatory Authority of Wakanda (IRAW).

* 19. What is the Contractual Service Margin (“CSM”) expected to be seen in the accounts for this product by the IRAW for GoodInsurer? (6 marks)

* 20. If no new policy was sold after the first year, what is the CSM expected in the second year? (4 marks)

* 21. In Year 3, the shareholders of GoodInsurer feel that the footballers are buying very fast cars and may have more claims. There is no evidence yet that the claims will increase. The Board of GoodInsurer held a meeting and approved the Risk Adjustment to be held at a higher confidence level of 95%. This means that the Original Risk Margin would have been Wsh 100,000 instead of Wsh 50,000. Calculate the CSM for Year 3? (6 marks)

* 22. What is the Insurance Finance Expenses expected to be seen in Year 1 up-to Year 5? (5 marks)

* 23. BadInsurer decided to undercut and sell the same product at 50% of the premium. Calculate the Loss Component expected to be held on the insurer? (5 marks)

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Overall Experience Rating

You have completed the Exams!

Thank you for your participation, and your feedback is greatly appreciated.

* 24. Please rate your overall experience.

0 100