**MODULE 10: REINSURANCE CONTRACTS HELD**

Introduction

This module provides an in-depth overview of the Reinsurance contracts held under **IFRS 17.**

Reinsurance contract held refers to a contract under which one entity (the cedant) receives compensation from another entity (the reinsurer) for one or more claims arising from insurance contracts it has issued.

Reinsurance contracts held are measured independently from the underlying insurance contracts issued.

The "mirroring approach" used under IFRS 4 is no longer applied. Instead, IFRS 17 requires a stand-alone assessment of reinsurance contracts held.

We account for reinsurance contracts held to;

1. Reflect the risk mitigation effect in financial statements.
2. Show consistent measurement with underlying insurance contracts.
3. Recognize gains or losses on risk transfer at initial recognition.

Measurement of Reinsurance contracts held

Initial Recognition

At initial recognition, the reinsurance contract is measured using the General Measurement Model (GMM) unless the Premium Allocation Approach (PAA) is applied and meets the eligibility criteria.

The measurement components includes:

1. Fulfilment cash flows, which are the expected present value of future inflows and outflows related to the reinsurance contract, adjusted for the time value of money and the risk of counterparty default.
2. A risk adjustment, which reflects the uncertainty in the amount and timing of the cash flows from the reinsurer.
3. A Contractual Service Margin (CSM), which is established if the present value of future inflows from the reinsurer exceeds the ceded premiums. This CSM represents the unearned gain and is deferred and recognized as income over the coverage period.
4. Loss-recovery component if the underlying contracts are onerous.

Subsequent measurement

After initial recognition, reinsurance contracts held are remeasured at each reporting date. The measurement continues to follow the GMM (or PAA if applicable), which requires updating the key components which include;

1. Fulfillment cashflows
2. Risk adjustment
3. CSM
4. Loss-recovery component
5. Experience adjustments
6. Changes in discount rates

If a group of insurance contracts is onerous and there's a related reinsurance contract, the cedant recognizes a recovery asset known as loss-recovery component.

Presentation in financial statements

Assets and liabilities from reinsurance contracts are presented separately from insurance contracts issued.

Revenue and expenses from reinsurance are also presented separately in the statement of profit or loss.

Income and expenses from reinsurance are shown separately from insurance contracts issued per IFRS 17 disclosure requirements.

Disclosures

Entities must disclose;

1. An explanation of how reinsurance contracts affect the amounts in financial statements
2. Significant judgments made in applying IFRS 17 to reinsurance.
3. Reconciliations of opening and closing balances of assets and liabilities.

Illustration of reinsurance contracts held.

**REINSURANCE CONTRACTS HELD**

**Loss- recovery Component**

Recognized for expected recoveries of losses on onerous contracts

**Recognition criteria**Held to receive compensation for insured events

**Fulfillment cash flows**Expected inflows & outflows, adjusted for reinsurer default risk