**MODULE 7: SUBSEQUENT MEASUREMENT**

**Introduction**

This module provides an in-depth overview of the subsequent measurement requirements for insurance contracts under **IFRS 17.**

**Overview of Subsequent Measurement**

After initial recognition, insurance contract liabilities must be updated to reflect:

1. Changes in estimates of future cash flows;
2. Release of CSM based on coverage units
3. Changes in discount rates;
4. Claims incurred and paid.
5. Experience adjustments and risk changes
6. Amortization of insurance acquisition cash flows

**Liability for Remaining Coverage (LRC)**

The LRC reflects the insurer’s obligation to provide coverage in the future. At each reporting date, it is updated for:

1. **Premiums received**
2. **Release of CSM** as services are rendered
3. **Changes in fulfilment cash flows** relating to future service
4. **Adjustments to risk adjustment**

**Note*: The CSM is adjusted only for changes that relate to future service.***

For contracts with boundaries extending beyond twelve (12) months, the LRC will be adjusted as follows:

1. Opening LRC balance: Starting point for the period.
2. Changes due to claims and expenses
3. Time value of money and financial risks:
4. Risk Margin for non-financial risk
5. Contractual Service Margin (CSM)
6. Loss Component: Optional adjustments for losses in the loss component.

For contracts with boundaries of twelve (12) months or less, the LRC will be adjusted as follows:

1. Opening LRC balance
2. Add: Premium Received
3. Less: Amortization of Insurance Time value of money and financial risks.
4. Less: Insurance Revenue

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**Liability for Incurred Claims (LIC)**

The LIC represents the obligation to settle claims that have already been incurred but not paid. Updates to LIC include:

1. Recognition of incurred claims
2. Changes in estimates for reported and unreported claims (e.g., IBNR, OCR)
3. Application of discounting if payment is expected more than 12 months after the reporting date
4. Risk adjustment for non-financial risk
5. Unallocated Loss Adjustment Expenses (ULAE): These are internal costs (not directly linked to individual claims but expected to be incurred in settling claims. ULAE must be estimated, included in the fulfilment cash flows, and discounted if appropriate.

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AI-generated content may be incorrect.Subsequent measurement for LIC**

**Adjusting the Contractual Service Margin (CSM)**

The CSM is adjusted for:

1. Changes in fulfilment cash flows related to future service
2. Accretion of interest using the locked-in rate
3. Release to profit or loss based on the coverage units

It is **not adjusted** for:

1. Changes related to past or current service
2. Experience variances from prior periods

**Scenario:**

1. Opening CSM: KES 150,000
2. Interest accretion: KES 5,000
3. Adjustment from change in future cash flows: KES -30,000
4. Release based on service provided: KES 20,000

**Calculation:**

1. Adjusted CSM = 150,000 + 5,000 - 30,000 - 20,000 = KES 105,000
2. If the change in future service exceeded the CSM, the excess would be recognized as a loss.

**KEY TAKEWAYS**

1. Subsequent measurement ensures that liabilities reflect the current expectations of future service and incurred obligations.
2. The LRC and LIC are updated continuously as new information becomes available.
3. The CSM plays a critical role in spreading profit recognition over the service period.
4. Onerous contract assessments continue throughout the contract’s life.
5. ULAE should be included in fulfilment cash flows for incurred claims and estimated using sound actuarial techniques.