

# Reinsurance

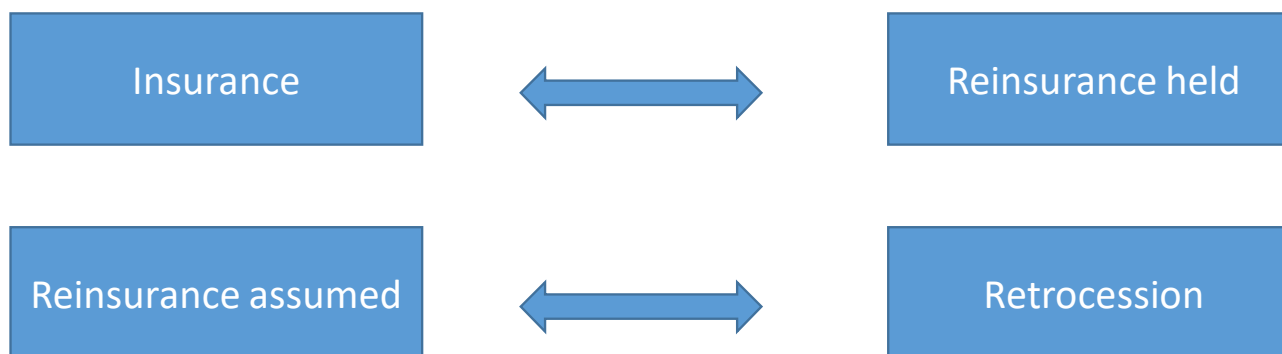


# Introduction to IFRS 17

## De-linking reinsurance from insurance contracts



- Reinsurance contracts held and underlying insurance contracts are **presented separately** in the IFRS 17 financials
- There is **no offsetting** of the two in the P&L and balance sheet
- The standard treats insurance contracts and reinsurance contracts assumed similarly, with exception that VFA and DPF cannot be applied for reinsurance contracts assumed
- Treatment for reinsurance contracts held is similar, but with exceptions (Art. 60-70)





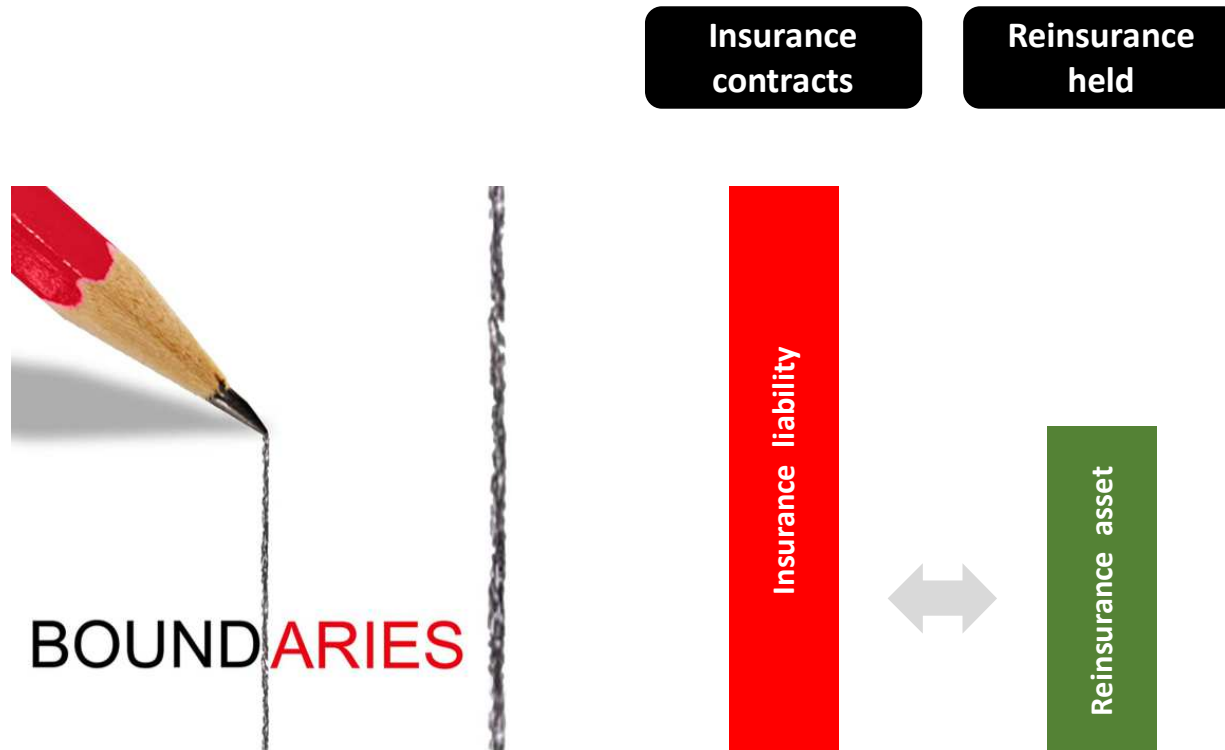
### Reinsurance mismatches

- **Different models** – reinsurance held does not have to be measured with the same model as related insurance contracts. Additionally the VFA cannot be applied to the reinsurance held.
- **Contract boundaries** – contract boundary of the reinsurance contract held can be different that the contract boundary of the related insurance.
- **Grouping** – Reinsurance contracts held can follow different grouping that do not map one-to-one with the related insurance contracts groups.
- **Recognition** - there are different reinsurance held recognition rules compared to the related insurance contract recognition.

Insurance contracts			Reinsurance contracts held	
VFA	Ins. liability	🙄	GM	Reinsurance asset
VFA	Ins. liability	🙄	PAA	Reinsurance asset
GM	Ins. liability	👍😄👍	GM	Reinsurance asset
GM	Ins. liability	🙄	PAA	Reinsurance asset
PAA	Ins. liability	🙄	GM	Reinsurance asset
PAA	Ins. liability	👍😄👍	PAA	Reinsurance asset



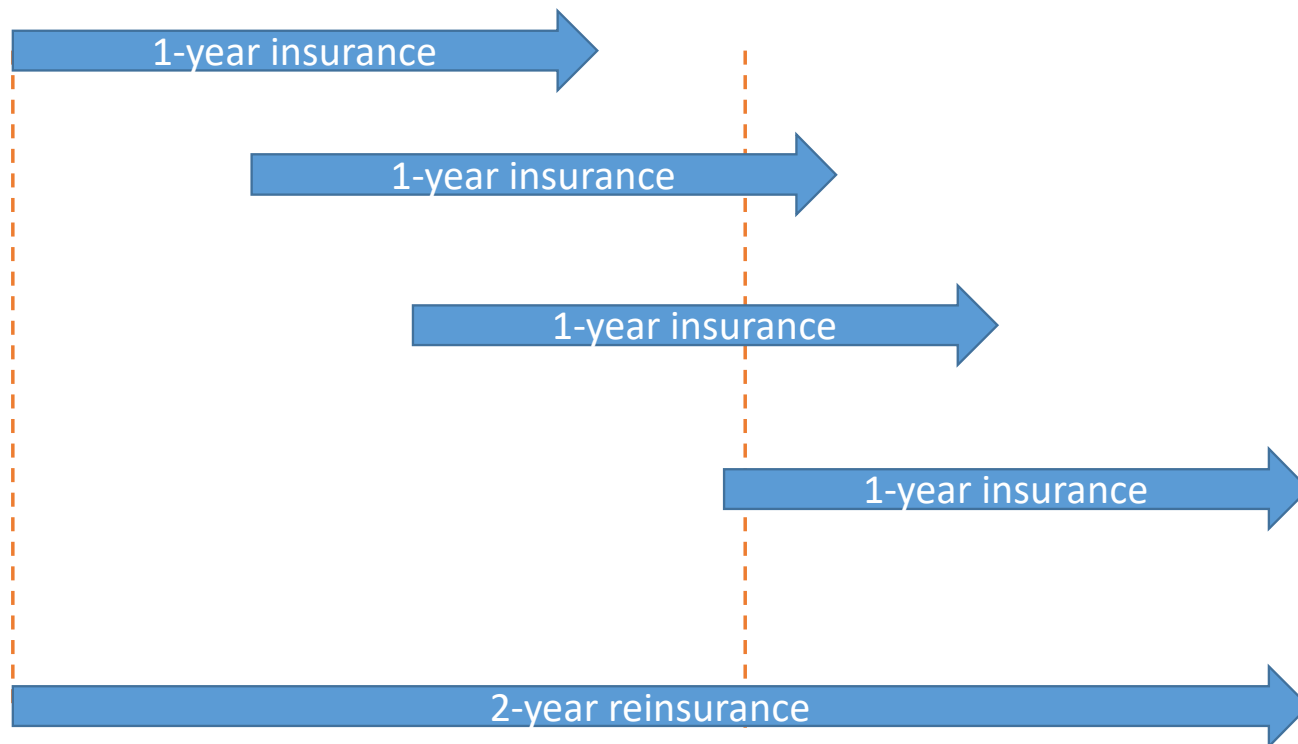
**Different models**  
 Reinsurance held does not have to be measured with the same model as related ins. contracts. Additionally, the VFA cannot be applied to the reinsurance held.



### Contract boundaries

The contract boundary of the reinsurance held can be different than the contract boundary of the related insurance.

**Example: Risk Attaching contracts**



**Insurance contracts:**

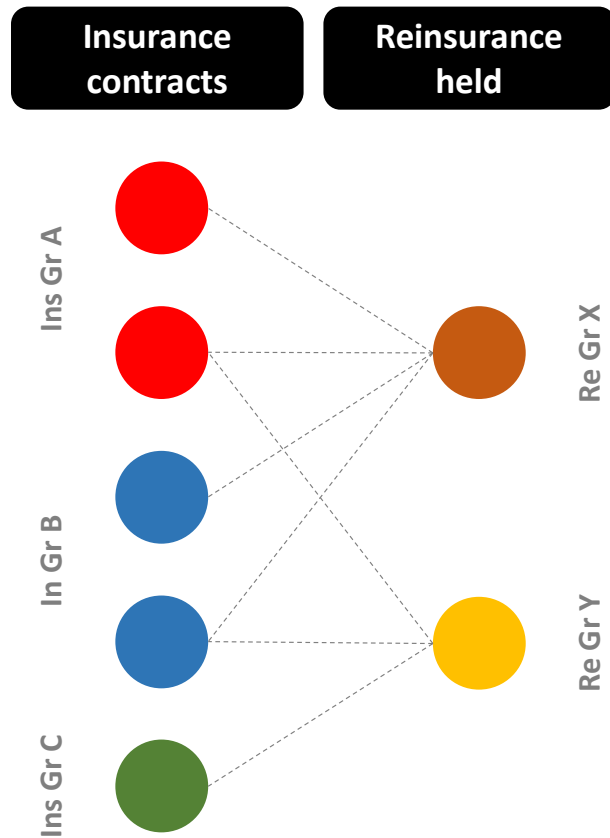
- eligible to PAA

**Reinsurance contract:**

- may not be eligible to PAA
- if modelled under GMM cash flows need to be adjusted to include New Business

# Introduction to IFRS 17

## Reinsurance grouping



**Grouping**  
Reinsurance contracts held can follow different groupings, which do not map one-to-one with the related insurance contracts groups.



### Insurance contracts

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- a) the beginning of the coverage period of the group of contracts;
- b) the date when the first payment from a policyholder in the group becomes due; and
- c) for a group of onerous contracts, when the group becomes onerous

### Reinsurance contracts held

#### Proportional reinsurance

At the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is later;

#### Non-proportional reinsurance

From the beginning of the coverage period of the group of reinsurance contracts held



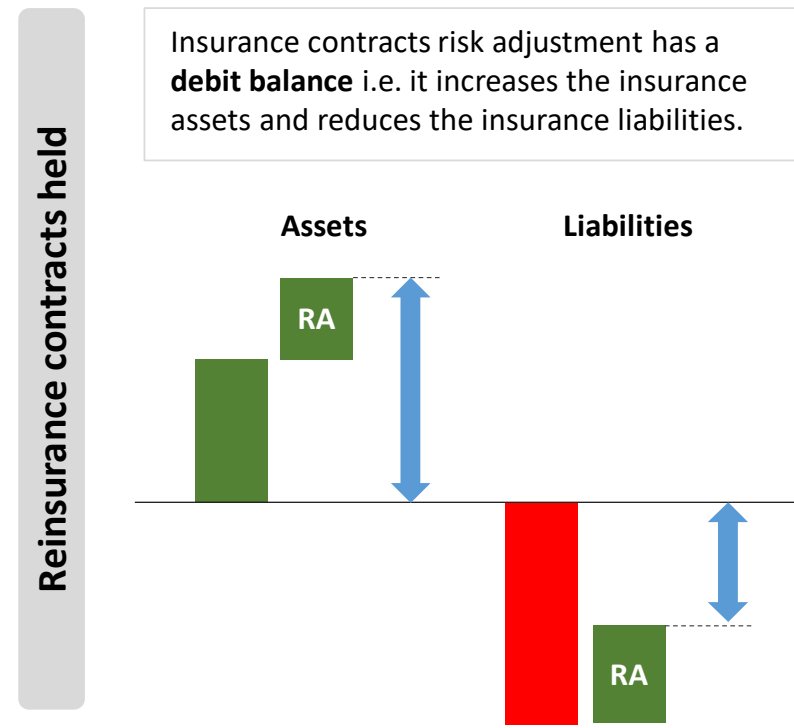
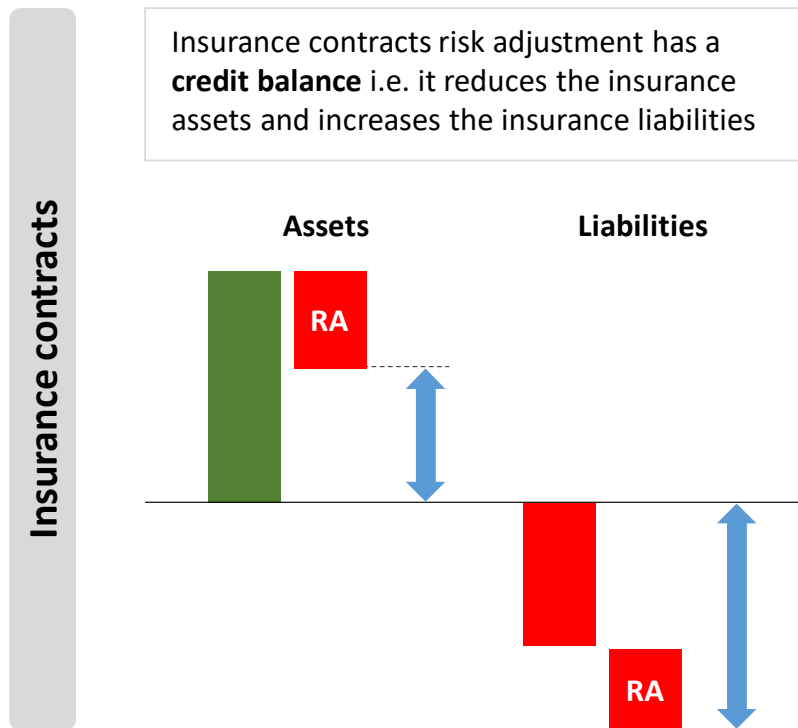
#### Reinsurance recognition

There are different reinsurance contracts held recognition rules compared to the related insurance contract recognition.



# Introduction to IFRS 17

## Reinsurance risk adjustment



# Introduction to IFRS 17

## Loss recovery component

- Entities can **offset losses** recognized at inception through a reinsurance contract
- The offset is called **Loss Recovery Component**
- Entities need to **keep track** of both Contractual Service Margin and Loss Recovery Component
- Initially recognized Loss Recovery Component is **systematically amortised** over the contract period
- It may be potentially operationally difficult to calculate (i.e. how do companies estimate loss recovery ratio?)
- Perfect matching may be difficult to obtain due to certain mismatches between insurance and reinsurance:
  - Contract boundaries
  - Model
  - Locked-in rates

