

Jenny Ng

Subject: FW: IFRS 17 Exposure draft

From: Tiernan Ketchum <tiernanketchum@hkicpa.org.hk>
Sent: Monday, August 19, 2019 4:40 PM
To: Jenny Ng <jennyng@hkicpa.org.hk>
Subject: FW: IFRS 17 Exposure draft

Jenny – FYI we received the comment below for the Insurance project directly to our addresses.

From: Alain Beland <Alain_Beland@swissre.com>
Sent: Monday, August 19, 2019 7:55 AM
To: Christina Ng <ChristinaNg@hkicpa.org.hk>; Tiernan Ketchum <tiernanketchum@hkicpa.org.hk>
Subject: IFRS 17 Exposure draft

Hi Christina and Tiernan,

Regarding the exposure draft on IFRS 17 issued by the IASB, Swiss Re would like to comment on the **question 4 about Reinsurance Contracts held.**

Overall, the IASB's amendment and approach is welcome by Swiss Re. The only point Swiss Re would like to raise in related to the definition of reinsurance held with **proportionate coverage:**

1. The definition of reinsurance held with **proportionate** coverage is crucial for the two following reasons:
 - The E.D. on “Reinsurance contract held – recovery on underlying insurance contracts” recognizes that P/L losses created by an onerous portfolio at initial recognition can be recovered by P/L gains if the underlying group is covered by **proportionate** reinsurance.
 - A group of **proportionate** reinsurance contract cannot be recognized before the recognition of the first reinsured underlying contract.
2. Issues with the definition of proportionate coverage

E.D definition of the reinsurance that provides proportionate coverage:

*"A reinsurance contract held that provides an entity with the right to recover from the issuer a percentage of all claim incurred on groups of underlying insurance contracts.
The percentage the entity has a right to recover is fixed for underlying insurance contract in a single group of underlying insurance contracts, but can vary between groups of underlying insurance contracts."*

Swiss Re considers the E.D definition to be too restrictive as it covers only the full quota share on the full scope of the group of underling insurance contracts. Moreover, even some forms of quota-share would be excluded, like when reinsurance is applicable to the Net Amount At Risk (NAAR) of an Universal-Life style of products. In this case, even if the reinsurance is a fixed percentage of the NAAR, it is a variable percentage of the total sum insured over the life of an insurance policy.

One of the impacts of the current proposed definition of proportionate reinsurance would be to greatly reduce the comparability of financial results of insurers. For example, two insurers could have similar portfolios and similar levels of business reinsured, but if one uses Quota-Share reinsurance and the other Surplus reinsurance, the financial results will vary greatly for their onerous contracts.

We believe that proportionate coverage should include reinsurance contracts which

- have a direct relationship on single claims incurred
- are based on the claims of the individual underlying insurance contracts (and not on the claims experience of a group of underlying insurance contracts)

This will help to increase the comparability amongst peers, as we believe that a small difference in the reinsurance terms (e.g. including a retention) or scope (e.g. excluding one underlying treaty from the scope) should not impact the proportionate coverage classification and create substantial difference in financial disclosures.

3. Swiss Re proposes to make the following changes:

- A change to the definition is needed to ensure that commonly used proportional structures such as quota share with retention and single risk (individual) XoL are included, whereas clearly non-proportional cover such as aggregate XoL, cat XoL, and stop-loss are appropriately excluded. The IASB's current proposed definition would only include first dollar quota share, which is a rarely used structure.
- Rather than a fixed percentage, something along the lines of a "contractually defined" percentage should be used, this effectively being an *implicit* percentage, based on the reinsurance treaty terms regarding the level of reinsured claims.
- Important that both the definition and B119D (which we propose to retain) refer to individual underlying contracts rather than the whole group. Grouping of contracts should not require for them to be in separate groups depending on the reinsurance treaties applicable.
- See below for suggested changes to the wording of the Standards.

Please do not hesitate if you have any questions.

Best Regards,

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Updated Definition:

Suggested definition (change of Appendix A and reference to definition in BC80 of ED/2019/4):

~~"A reinsurance contract held that provides an entity with the right to recover from the issuer a contractually defined percentage of each claim all-claims incurred on groups-of individual underlying insurance contracts within a group of contracts. The percentage-the entity has a right to recover is fixed for all-contracts in a single group of underlying insurance contracts, but can vary between-groups-of underlying insurance contracts."~~

Analogously, IFRS 17.B119D is suggested to be amended as follows:

"An entity shall determine the adjustment to the contractual service margin and the resulting income recognised applying paragraph 66A by multiplying:

- (a) The loss recognised on the individual ~~group-of~~ underlying insurance contracts within a group of contracts; and
- (b) The contractually defined ~~fixed~~ percentage of claims on the ~~group-of~~ underlying insurance contracts the entity has a right to recover from the group of reinsurance contracts held."

Other paragraphs e.g. B119c need to be amended correspondingly:

Paragraph 66A applies to reinsurance contracts held that provide proportionate coverage. Such reinsurance contracts provide the entity with the right to recover from the issuer a contractually defined ~~fixed~~ percentage of each claim ~~all-claims~~ incurred on ~~a group-of~~ individual underlying insurance contracts within a group of contracts. Such reinsurance contracts can also include cash flows, other than claims, that are not proportionate to cash flows of the underlying groups of insurance contracts issued. For example, in such reinsurance contracts, the premiums due to the reinsurer might not be proportionate to premiums due from the policyholders of the groups of underlying insurance contracts.

New footnote on page 56 (ED/2019/4) to BC304: The new footnote should be removed.

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