IFRS 17 for Non-Life (Re-)Insurers

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About the speaker

- **Dirk Rohmeder**
- *Director Risk Management, Swiss Re*

- Actuary DAV
- 2004-10 P&C Reserving Actuary at SR Germany and Hong Kong
- 2010-13 Solvency II implementation manager at SR Zurich
- Since 2014 various roles in Finance and Risk Management

- The Swiss Re Group is a leading and highly diversified global re/insurer, founded in Zurich (Switzerland) in 1863
- The Group operates around the world and is organized in three Business Units:
  - Reinsurance
  - Corporate Solutions
  - Life Capital

Swiss Re

Premium Allocation Approach (PAA) vs. General Measurement Model (GMM)

PAA the default for Non-Life?

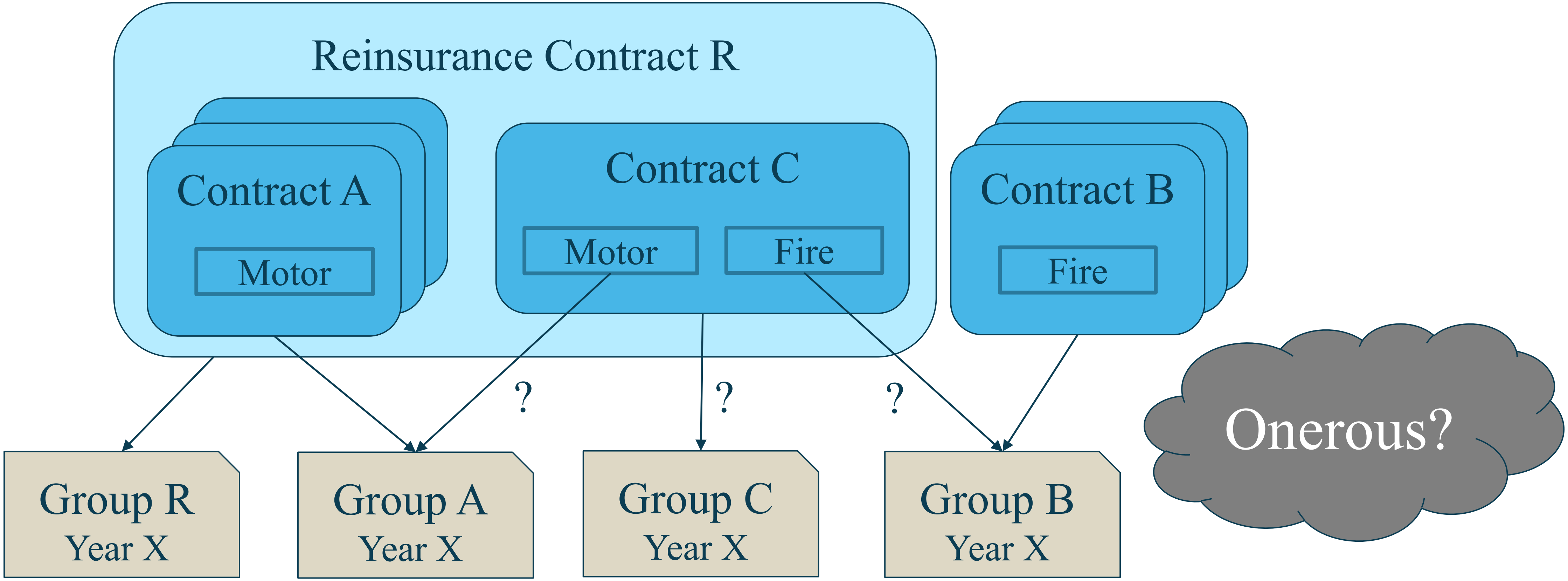
- a simplification if contract is not longer than a year
- if onerous, cash flows still required

Contracts longer than a year:

- quantitative test required
- "reasonable approximation" to GMM
- No significant variability affecting the LRC expected at inception

	Liability for Incurred Claims (LIC)	Liability for Remaining Coverage (LRC)
IFRS 4 / US GAAP	Undiscounted reserves for past claims	UPR less DAC
IFRS 17 PAA	Best Estimate Cash Flow Discounting Risk adjustment	Similar to IFRS 4
IFRS 17 GMM	Best Estimate Cash Flow Discounting Risk adjustment	Best Estimate Cash Flow Discounting Risk adjustment CSM

Grouping and Splitting of Contracts



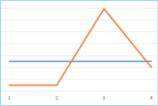
Liability for Remaining Coverage:

BBA: Contractual Service Margin (CSM); based on outstanding fulfilment cash flows

Calculation on group level (annual cohorts)

PAA: Similar to IFRS 4 and US GAAP; earning of premiums over time

What is a Coverage Unit?

Seasonal Pattern? 

GMM likely not allowed

PAA explicitly allowed

Risk Adjustment

Confidence Level
vs.
Cost of Capital

Group Risk Adjustment
=
Sum of Solo Risk Adjustments?

Can Solvency II Risk Margin be used?

→

How to split into "earned" and "unearned" part?

Variable Premiums and Commissions

Sliding Scale

Profit Commission

Reinsurance Commission

Insurance Service Expense?

Insurance Revenue?

No-Claims Bonus

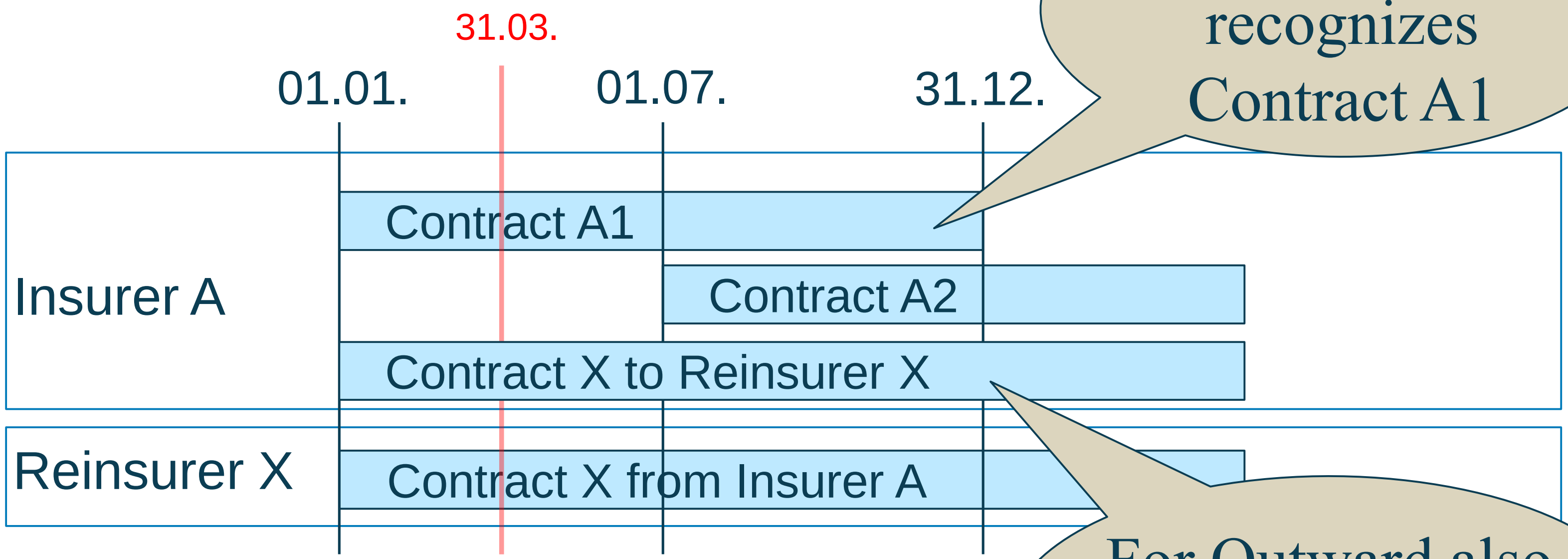
Reinstatement Premium

Investment Component?

Refund for unused coverage

Contract Boundaries for Reinsurance

Reinsurance held is in different group than underlying business



Insurer A only recognizes Contract A1

Reinsurance held includes future underlying

For Outward also Contract A2 is recognized

Conclusion

- For Non-Life insurers it is not necessarily clear that PAA can be used throughout the whole portfolio
- PAA may not give as much operational relief as one might think
- Non-Symmetry of reinsurance held and underlying business may lead to accounting mismatches
- Contractual service margin calculation may not be straight forward
- Determination of investment components may not be straight forward

Questions?

Thank you very much for your attention!

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