

Update from the Academy's Committee on Property and Liability Financial Reporting (COPLFR)

On Its Draft Risk Transfer Practice Note



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Risk Transfer Practice Note—Purpose

The Risk Transfer Practice Note discusses:

- Definitions and relationships between regulatory treatments of risk transfer—e.g., U.S. statutory, U.S. Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS) 17, and Solvency II
- The process for determination of risk transfer;
- Identifies current techniques used in practice for determining risk transfer; and
- Risk transfer documentation.



Risk Transfer Definition

SSAP 62R notes:

“Indemnification of the ceding entity against loss or liability relating to insurance risk in reinsurance requires both of the following:

- The reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance agreements; and
- It is reasonably possible that the reinsurer may realize a significant loss from the transaction.”

SSAP 62R goes on to say,

- “The conditions are independent and the ability to meet one does not mean that the other has been met.
- A substantive demonstration that both conditions have been met is required to transfer risk.”



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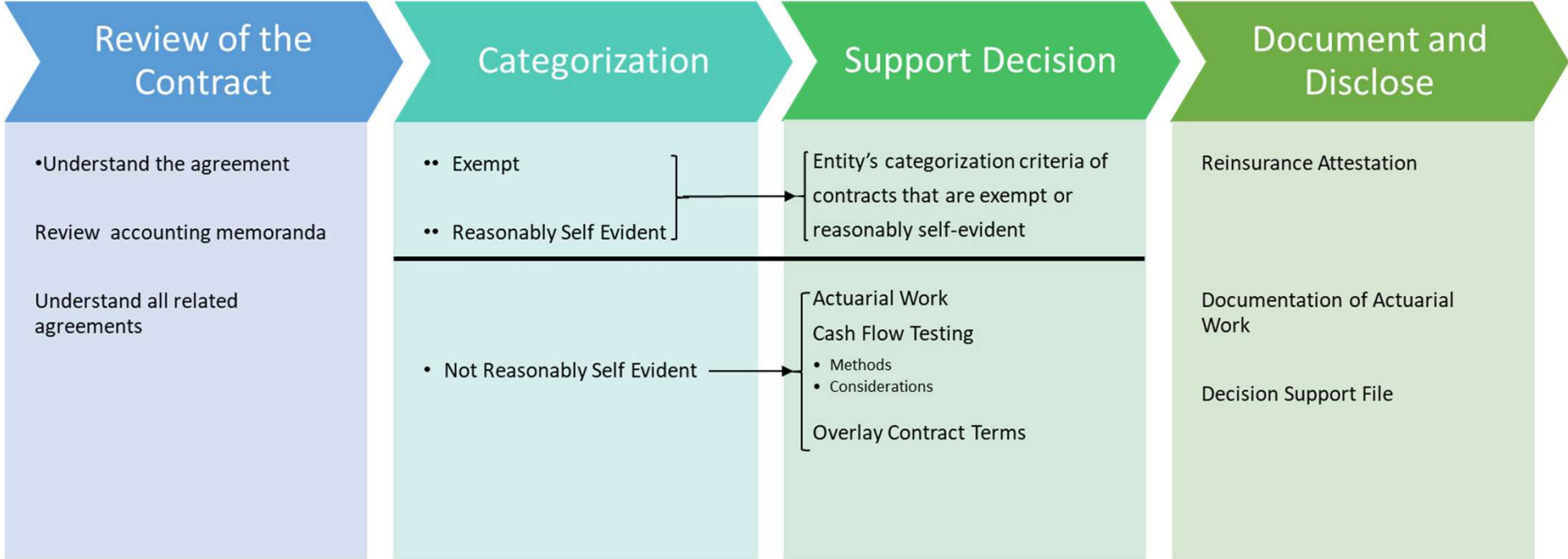
Comparison of Risk Transfer Standards

ASC 944/SSAP 62R/IFRS 17

- Definition of insurance risk
- Cash flows utilized for determining risk transfer
- Interest/discount rate
- Threshold for risk transfer
- Exceptions
- Applicability



Risk Transfer Determination - Process Flow



Actuarial Support for Determination of Risk Transfer

Methods:

- “10-10 Rule”
- Expected Reinsurer Deficit (ERD) Method



Risk Transfer Documentation

- Documents and materials, including risk transfer analyses, which are maintained on each reinsurance contract in which risk transfer is not reasonably self-evident
- Enough information for an auditor or regulatory examiner to follow the process used to assess the reinsurance accounting treatment
- Required by SSAP 62R, FASB ASC Topic 944, or IFRS 17



Questions and Contact

- Questions?
- For further inquiry you can contact Rob Fischer, casualty policy analyst (fischer@actuary.org)

