

## Risk Transfer Practice Note - Summary Table

Item	Standard		
	FASB ASC 944	SSAP 62R	IASB IFRS 17
Definition of insurance risk	The risk arising from uncertainties about both underwriting risk and timing risk. Actual or imputed investment returns are not an element of insurance risk. Insurance risk is fortuitous; the possibility of adverse events occurring is outside the control of the insured. <sup>1</sup>	Insurance risk involves uncertainties about both the ultimate amount of net cash flows (... of an insurance contract) and the timing of the receipt and payment of those cash flows (i.e., underwriting risk and timing risk). Actual or imputed investment returns are not an element of insurance risk. <sup>2</sup>	Risk, other than financial risk, transferred from the holder of a contract to the issuer. <sup>3</sup>
Cash flows to be utilized for determining risk transfer	The ceding entity's evaluation of whether it is reasonably possible for a reinsurer to realize a significant loss from the transaction shall be based on the present value of all cash flows between the ceding and assuming entities under reasonably possible outcomes, without regard to how the individual cash flows are characterized. <sup>4</sup> Only cash flows between the ceding and assuming entities are considered, therefore precluding consideration of other expenses of the reinsurer (such as taxes and operating expenses) in the calculation. <sup>5</sup>	The present value of all cash flows between the ceding and assuming companies under reasonably possible outcomes, without regard to how the individual cash flows are described or characterized. <sup>6</sup>	The expected value (i.e., the probability-weighted mean) of the full range of possible future cash flows (of all cash flows between the policyholder and the insurance entity) <sup>7</sup>
Interest/discount rate to be used	"The same interest rate shall be used to compute the present value of cash flows for each reasonably possible outcome tested. To be reasonable and appropriate, that rate shall reflect both of the following: (a) The expected timing of payments to the reinsurer (b) The duration over which those cash flows are expected to be invested by the reinsurer" <sup>8</sup>	The same interest rate shall be used to compute the present value of cash flows for each reasonably possible outcome tested. That interest rate shall reflect both the expected timing of payments to the reinsurer and the duration over which those cash flows are expected to be invested by the reinsurer. <sup>9</sup>	For cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rate reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. <sup>10</sup>
Threshold for risk transfer	Unless the condition in paragraph 944-20-15-53 is met, indemnification of the ceding entity against loss or liability relating to insurance risk in reinsurance of short-duration contracts exists under paragraph 944-20-15-37(a) only if both of the following conditions are met:  Significant insurance risk... Significant loss...,  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 for a short-duration contract to transfer risk. <sup>11</sup>	Indemnification requires that the reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance agreements; and that it is reasonably possible that the reinsurer may realize a significant loss from the transaction. <sup>12</sup>	A contract transfers significant insurance risk only if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis. <sup>13</sup>
Exceptions to determination	If, based on the comparison in paragraph 944-20-15-51, the reinsurer is not exposed to the reasonable possibility of significant loss, the ceding entity shall be considered indemnified against loss or liability relating to insurance risk only if substantially all of the insurance risk relating to the reinsured portion of the underlying insurance contracts has been assumed by the reinsurer. That condition is met only if insignificant insurance risk is retained by the ceding entity on the reinsured portions of the underlying insurance contracts. <sup>14</sup>	The cedent shall be considered indemnified against loss or liability relating to insurance risk only if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance agreements has been assumed by the reinsurer. <sup>15</sup>	A contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts. <sup>16</sup>
Applicability	Per § 720-20-25-1, "to the extent that an insurance contract or reinsurance contract does not, despite its form, provide for indemnification of the insured or the ceding entity by the issuer or reinsurer against loss or liability, the premium paid less the amount of the premium to be retained by the insurer or reinsurer shall be accounted for as a deposit by the insured or the ceding entity." <sup>17</sup>	The contracts considered are those between an insurance entity and its reinsurer. <sup>18</sup>	This standard is applicable to all insurance contracts, "including reinsurance contracts" issued. <sup>19</sup>

<sup>1</sup> FASB ASC 944-20-20. In the same section, timing risk is defined as "[t]he risk arising from uncertainties about the timing of the receipt and payments of the net cash flows from premiums, commissions, claims, and claim settlement expenses paid under a contract," while underwriting risk is "[t]he risk arising from uncertainties about the ultimate amount of net cash flows from premiums, commissions, claims, and claim settlement expenses paid under a contract.

<sup>2</sup> SSAP 62R §11

<sup>3</sup> IFRS 17, Appendix A – Defined Terms

<sup>4</sup> FASB ASC 944-20-15-49

<sup>5</sup> FASB ASC 944-20-15-50

<sup>6</sup> SSAP 62R §17

<sup>7</sup> IFRS 17 §33

<sup>8</sup> FASB ASC 944-20-15-49

<sup>9</sup> SSAP 62R §17

<sup>10</sup> IFRS 17 §B79

<sup>11</sup> FASB ASC 944-20-15-41

<sup>12</sup> SSAP 62R §13

<sup>13</sup> IFRS 17 §B19

<sup>14</sup> FASB ASC 944-20-15-53. Note: Further elaboration is provided in the paragraph as to what constitutes risk transfer in this case.

<sup>15</sup> SSAP 62R §18

<sup>16</sup> IFRS 17 §B19

<sup>17</sup> FASB ASC 944-20-15-1B

<sup>18</sup> SSAP 62R §1

<sup>19</sup> IFRS 17 §3