4.4 Reinsurance Recognition

Q67

Q67 Section 4.4 Should all reinsurance contracts be identified using a consistent definition across all jurisdictions? If "yes", please propose a definition.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	No	
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	Only reinsurance should be recognised that is provided by an authorised and supervised insurer or reinsurer. Reinsurance should include significant risk transfer from the ceding to the accepting (re)insurer: the explicit maximum loss potential, expressed as the maximum economic risk transferred, arising both from a significant underwriting risk and timing risk transfer, should exceed the premium over the lifetime of the contract by a significant amount.

National Association of Insurance Commissioners	USA	IAIS Member	No	No	A consistent definition is not necessary. This is one (of many) local accounting differences and comparability of outcomes does not require each and every one of these differences be eliminated. However, if a definition must be selected, then we would propose that all reinsurance contracts must have significant insurance risk. Insurance risk includes uncertainty in amount (i.e. underwriting risk) and uncertainty in timing.
Ageas	Belgium	Other	No	Yes	We suggest to apply the definition for reinsurance and risk transfer in Solvency II (Directive art. 101 and Delegated Acts art. 208-215) that an effective transfer of underwriting risk is a pre-condition to apply reinsurance risk mitigation. In other cases there is a financial risk transfer.
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	No	Due to the diversity of reinsurance contracts across the globe and differences in regional risk transfer rules, we do not believe it would be practical to identify all reinsurance using a single consistent definition within ICS. Any attempts to bring in such a single definition could lead to unintended consequences which could disadvantage certain existing markets. If a regulator has determined that a particular arrangement qualifies for risk transfer in its local market then it should not be the purpose of ICS to undermine that determination. We would also be concerned that a single definition, which all regions would need to comply with, may stifle innovation in the market. For example this could occur where new products that may be approved locally do not fit traditional definitions of reinsurance.

					Furthermore, there needs to be correspondence of recognition of liabilities and risk mitigation contracts as such if there are liabilities recognised on an economic basis then a corresponding recognition of risk mitigation should apply. More generally we would not expect that contract renewals that are rolling over but fall outside of the valuation anniversary should be penalised as such credit for the risk mitigation program should be provided.
Canadian Institute of Actuaries	Canada	Other	No	Yes	We encourage consistency with how IFRS 17 deals with this.
CLHIA	Canada	Other	No	No	
Insurance Bureau of Canada	Canada	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	The reinsurance arrangements are generally for the risk management and risk mitigation purposes, which are also implemented according to the requirements of local regulators. Therefore, we propose that local regulators clearly define reinsurance contracts hold by the local companies, in order to be consistent with the local industry practices.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	Other	No	Yes	The general principle that should apply is that the economic benefit of the reinsurance contract should be allowed and the definition of a reinsurance contract needs to facilitate this
AMICE, Association of Mutuals and CooperativesinEurope/ICMIF,International Cooperative and Mutual Insurance Federation.	Europe	Other	No	Yes	

Institut des Actuaires	France	Other	No	No	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	Whether a reinsurance contract counts as risk transfer or no risk transfer under the rules of US GAAP, IFRS or any other accounting basis is irrelevant when it comes to deciding necessary capital. In general, if reinsurance is providing “effective risk mitigation” in times of crisis then it should be allowed for even if it does not meet the strict rules for insurance accounting.
General Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	Yes	The recognition of reinsurance should be driven by adherence to the principles in Section 6.3 "Risk Mitigation" and should not be contingent on an accounting definition. Section 6.3 should seek to clarify any potential inconsistences due to differing definitions across jurisdictions.

Association of British Insurers	United Kingdom	Other	No	No	The IAIS should not compare the net assets under the MAV or GAAP Plus balance sheet with the net assets under accounting (GAAP) balance sheets. This comparison is not meaningful as one is an economic balance sheet and the other is a prudent balance sheet. The difference only indicates the level of prudence in various (and not comparable) GAAP balance sheets. The difference does not imply that any of the capital under the MAV balance sheet is of an inferior quality. Moreover, the ICS requirements already capture the risk associated in the total net assets when stresses are applied to the total balance sheet. The IAIS has further asked whether inclusion of the difference between net assets on GAAP and MAV balance sheets creates volatility on the MAV balance sheet. The IAIS should recognise that increased volatility will be inherent in any economic balance sheet and there is no reason to link it to the difference with an accounting balance sheet. The volatility should be addressed by appropriate choice of discount rates.
National Association of Mutual Insurance Companies	United States	Other	No	No	
RAA	United States and many other jurisdicitons	Other	No	Yes	While reinsurance risk transfer rules diverge significantly in various GAAP regimes, it would be impractical to require a single consistent definition of reinsurance contract for the ICS. We do not believe strict comparability in risk transfer for reinsurance is necessary to achieve comparable supervisory outcomes in an ICS standard. Instead, principles of risk mitigation should be universal in the ICS and should recognize that judgment will need to be applied in some instances. In addition, we do not believe this is an issue for the MAV valuation approach, as it is based on the current estimate

					derived from probability weighted future cash flows, so that the valuation approach for both insurance reserves and the effects of reinsurance are measured on the same basis.
CNA	USA	Other	No	Yes	We favor a principled based approach for the implementation for the ICS which will allow mutual recognition of jurisdictional group capital assessment as long as they align with the ICS principles. Under this approach the exact same definition of risk transfer is not necessary if its addressed in other parts of a regimes overall group solvency regime. If a standard ICS is required to be adhered to globally than it would be appropriate to develop a standard risk transfer methodology to ascertain the precision desired for the ICS. Unfortunately doing this could have disastrous results since the terms and conditions of a reinsurance agreement are designed to meet a specific set of risk transfer requirements based on the location of the ceding company. Changing this could have significant economic impacts.
MassMutual Financial Group	USA	Other	No	No	
Property Casualty Insurers Association of America (PCI)	USA	Other	No	No	No. Supervisors should simply be aware that there are potential differences in reinsurance recognition between IAIGs produced by differing risk transfer definitions. For the ICS to propose a uniform definition would be extremely disruptive for the jurisdictions whose reinsurance recognition method is not chosen, and the benefit is not worth the cost.

Q68

Q68 Section 4.4 Considering proportionality and the desire for pragmatism, would it be appropriate to limit a consistent approach across jurisdictions to only certain types of reinsurance contracts? If "yes", what kind of contracts? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	No	
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
Canadian Institute of Actuaries	Canada	Other	No	No	
CLHIA	Canada	Other	No	No	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	

AMICE, Association of Mutuals and CooperativesinEurope/ICMIF,International Cooperative and Mutual Insurance Federation.	Europe	Other	No	No	
Institut des Actuaires	France	Other	No	Yes	Contracts where there is a real transfer of risk.
Allianz	Germany	Other	No	No	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	No	
Munich Re	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
RAA	United States and many other jurisdicitons	Other	No	No	However if the IAIS determines that it is appropriate to use a consistent definition for a subset of contracts, it should apply only to GAAP Plus and should identify contracts for which reinsurance risk transfer may be in question. The NAIC has adopted a disclosure requirement for such contracts, the

					nature of which are defined in Interrogatory 9.1 of the Property Casualty Annual Statement.
MassMutual Financial Group	USA	Other	No	No	

Q69

Q69 Section 4.4.1 Are there any further comments on reinsurance recognition that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	No	
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	We refer to the issues highlighted around contract recognition of reinsurance assets in Question 7.
CLHIA	Canada	Other	No	Yes	It is noted in the consultative draft that reinsurance risk transfer may be defined differently in local jurisdictions, which can then lead to different treatment of

					reinsurance due to varying GAAP accounting regimes. For a global capital standard, a consistent treatment, not dependent on local accounting regimes, would be desirable. In theory, it may be possible to define reinsurance so it is treated consistently across jurisdictions. In practice, this may only be possible if an economic view of the impact of all types of reinsurance (proportional and non-proportional) is considered and recognized.
Insurance Bureau of Canada	Canada	Other	No	Yes	Further to our response to question 67, ideally, all reinsurance contracts should be identified using a consistent definition given that the IAIS' ultimate goal is a single ICS that includes a common methodology that achieves comparable outcomes across jurisdictions. In light of the two proposed valuation approaches, it may not be possible to achieve a consistent definition across all jurisdictions. ICS version 2.0 should consider principles governing the adjustments to be made to local jurisdictional GAAP financial statements to address differences in reinsurance risk transfer criteria.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Insurance Europe	Europe	Other	No	Yes	Please refer to our answer to question 67.
Allianz	Germany	Other	No	No	
GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	The economic impact of all types of Reinsurance (proportional and non-proportional) should be recognised.
Munich Re	Germany	Other	No	Yes	The economic impact of all types of reinsurance (proportional and non-proportional) should be appropriately recognized. Reinsurance is a powerful risk

					mitigation instrument at the core of an efficient risk management of an insurance company and it should be treated as such under ICS 1.0.
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	No	
General Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Association of Actuaries	Switzerland	Other	No	Yes	Effective risk mitigation measures should be appropriately taken into account. The corresponding impact on the capital (and where applicable MOCE) of the ceding company should be taken into account. The corresponding capital and for multi-year treaties MOCE for reinsurance credit risk should be taken into account. Risk transfer is an appropriate tool to realize better risk pooling. In can generate real value. ICS should be well designed to take the impact on the valuation and capital needs appropriately into account, both for the ceding company and for the reinsurer.
Swiss Re	Switzerland	Other	No	No	
Association of British Insurers	United Kingdom	Other	No	Yes	

RAA	United States and many other jurisdicitons	Other	No	Yes	Risk mitigation through reinsurance is a core risk management activity that is fundamental to the insurance business model. The development of the ICS must address this in a comprehensive and realistic manner to ensure that risk and capital is appropriately measured in the ICS standard.
MassMutual Financial Group	USA	Other	No	No	

End of Section 4.4