AUTORITÉ DES MARCHÉS FINANCIERS

Notice relating to the application of the *Guideline on Capital Adequacy Requirements – Property and Casualty Insurance 2023 (the "Guideline")*

On July 21, 2022, the Autorité des marchés financiers (the "AMF") published the final version of the Guideline, which took effect on January 1, 2023, in its Bulletin. Since its release, the AMF has noticed that some Guideline items could present difficulties in interpretation or application.

This notice sets out clarifications and adjustments to enable insurers to calculate the MCT in accordance with the AMF's expectations.

Clarifications and adjustments

Insurance risk – Calculating unexpired coverage for reinsurance contracts held
Publication date: December 14, 2023
Effective date: January 1, 2023

Cash flows to be recognized

The Autorité des marchés financiers (the "AMF") has received comments seeking clarifications on the cash flows to be considered in determining the unexpired coverage for reinsurance contracts held, described in section 3.3.2.2 of the Guideline. In response to these comments, and to ensure that the MCT is applied consistently and in accordance with IFRS 17, the AMF is providing the following clarification.

Clarification by the AMF

The unexpired coverage for groups of insurance contracts held must be determined using one or the other of the following methods. By way of clarification, the AMF is adding the following elements (underlined):

Groups of reinsurance contracts held measured using the GMM

Unexpired coverage for reinsurance contracts held (using the GMM)	=	(Estimate of future cash flows for reinsurance contracts held (<u>excluding premium and reinsurance commission cash flows that are due</u>)[1] + estimate of future cash flows from future reinsurance contracts held), adjusted for the time value of money[2]

[1] Premiums and reinsurance commission cash flows on risk attaching proportional reinsurance contracts held are considered due and therefore are zero.

[2] See paragraphs 33 to 36 of IFRS 17.

Groups of reinsurance contracts held measured using the PAA

Unexpired coverage for reinsurance contracts held (using the PAA)	=	{(ARC excluding the loss recovery component + unamortized reinsurance commission[3]) + premiums to be paid[4] for reinsurance contracts held + expected premiums payable for future reinsurance contracts held} x ELR[5] - (expected premiums payable[6] for reinsurance contracts held net of associated reinsurance commissions receivable[7] + expected premiums payable for future reinsurance contracts held net of associated expected reinsurance commissions receivable)

3 The reinsurance commission is the ceding commission (or a portion of the ceding commission) paid by the reinsurer to the ceding insurer, which is not contingent on claims of the underlying contracts and generally includes a total provision for broker/agent commissions, insurance premium taxes and other acquisition and servicing expenses.

4 Whether outstanding or not yet due.

5 The ELR for the unexpired coverage for reinsurance contracts held (using the PAA) in section 3.3.2.2 is the ELR for the ceded calculations that relates to the portion of such contracts that covers the unexpired portion of the underlying insurance contracts issued. It can therefore differ from the ELR in section 3.3.2.1 for calculating the unexpired coverage for insurance contracts issued (using the PAA).

6 Not yet due. Expected premiums payable and associated reinsurance commissions receivable on risk attaching proportional reinsurance contracts held are considered due; therefore, the amount of expected premiums payable for these contracts is zero.

7 Not yet due. Expected premiums payable and associated reinsurance commissions receivable on risk attaching proportional reinsurance contracts held are considered due; therefore, the amount of expected premiums payable for these contracts is zero.

If you have any questions, please contact Zinsou Ruffin Adja (ZinsouRuffin.Adja@lautorite.qc.ca).

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December 14, 2023