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Francesco Nagari, Deloitte Global Lead for IFRS Insurance Contracts | April 2025

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Agenda

- Overview
- Illustrative example
- Practical considerations

Catastrophe bonds

An overview

A catastrophe bond is an instrument that allows the transfer of catastrophe risk in insurance contracts to a third party, generally capital market investors who are outside the traditional reinsurance sector.



What is catastrophe risk

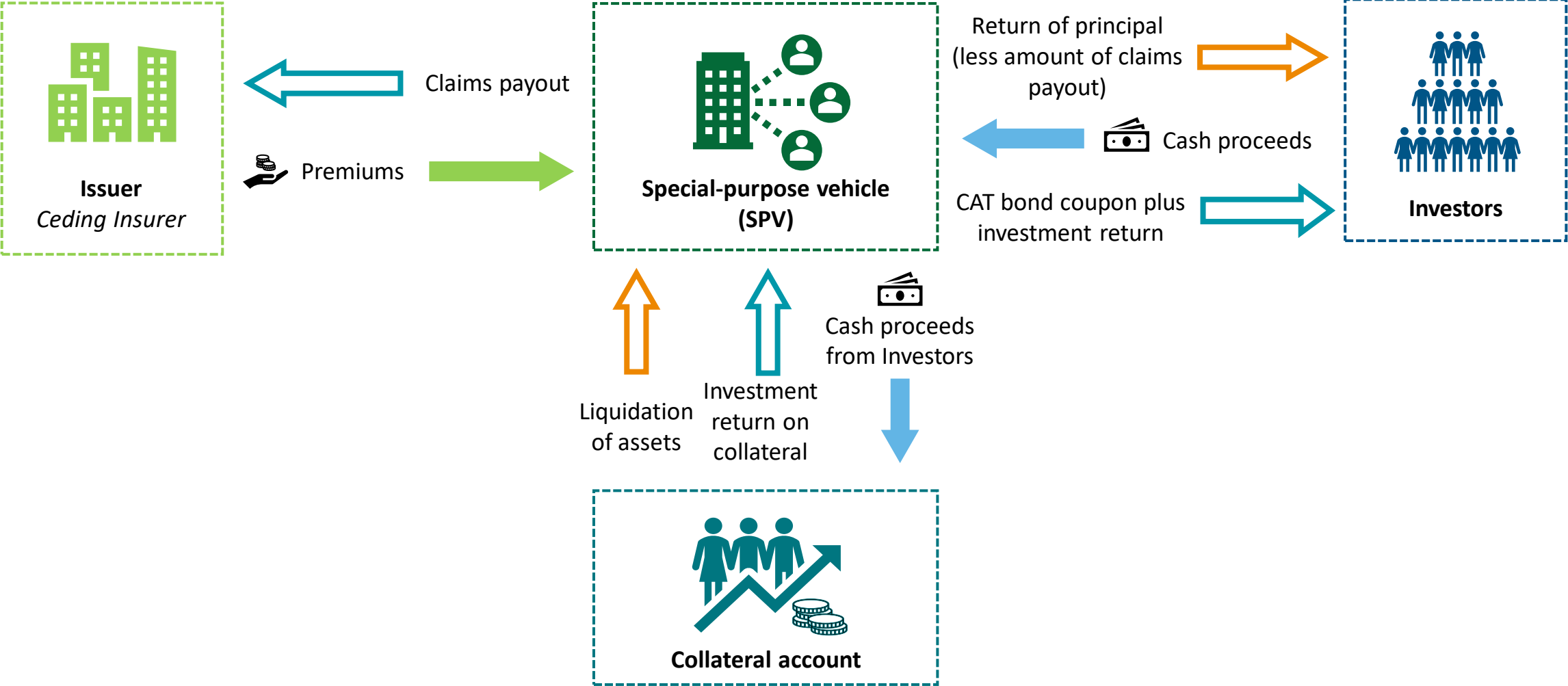


Why issue catastrophe bonds



Why purchase catastrophe bonds

Illustrative example



Source of diagram: *Catastrophe Bonds: A Primer and Retrospective*, Federal Reserve Bank of Chicago (2018) <https://www.chicagofed.org/publications/Chicago-fed-letter/2018/405>
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Illustrative example

IFRS 17 guidance

IFRS 17:8A



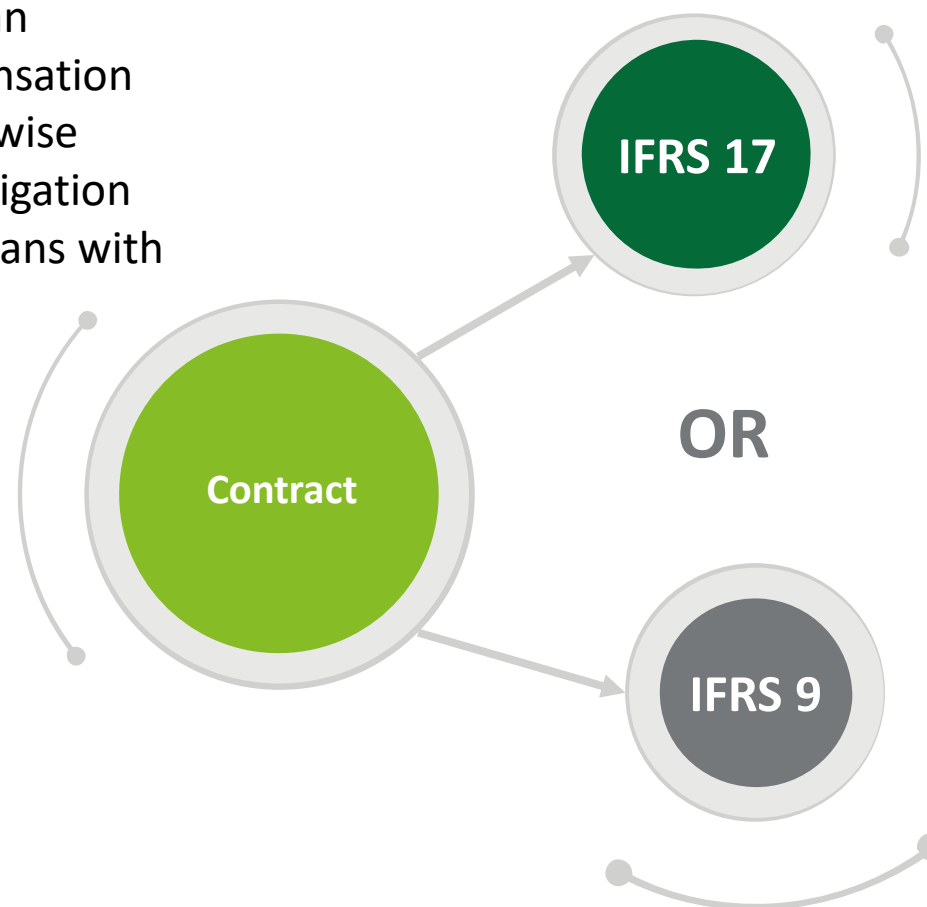
Some contracts meet the definition of an insurance contract but **limit** the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers).



- **Accounting policy choice** (APC) is provided for such contracts between **IFRS 17** and **IFRS 9, Financial Instruments**.

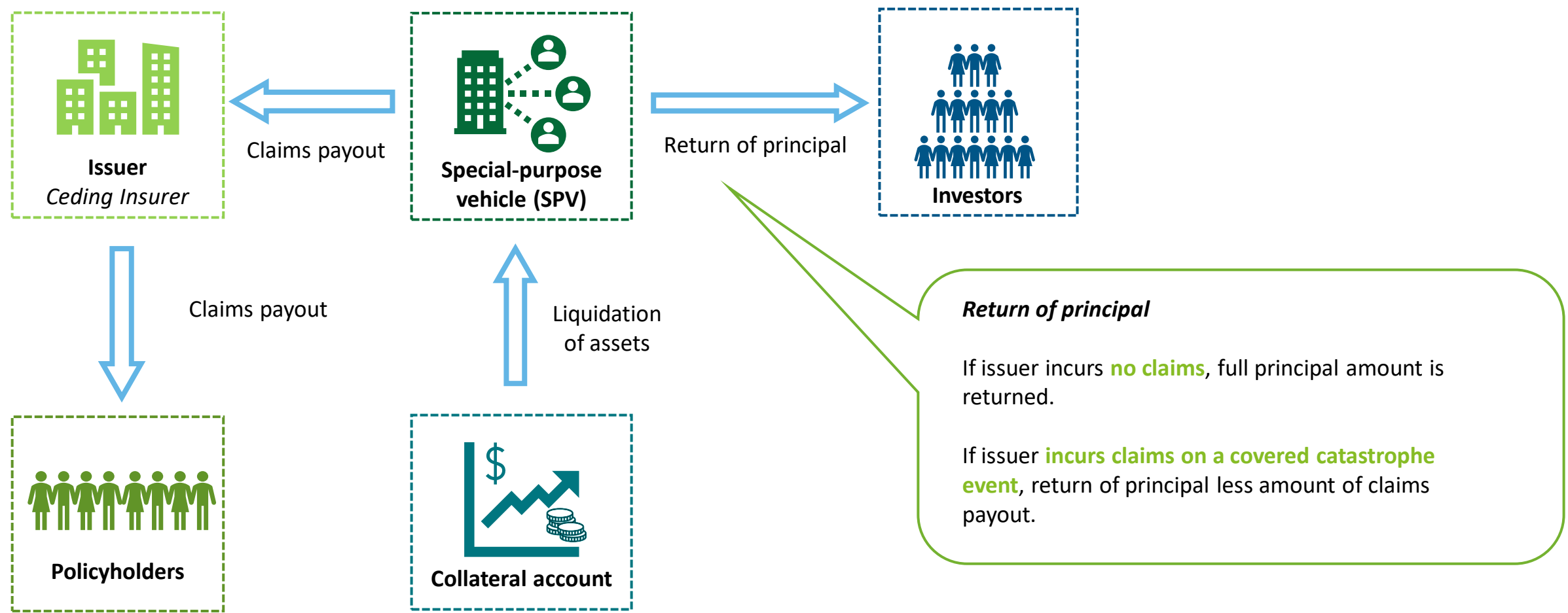


- APC is applied at **portfolio** level and is **irrevocable**.



Illustrative example

Analysis



Practical considerations



Facts and circumstances

Consider factors such as whether insurance risk is present and significant and is the issuer required to suffer a loss in order to trigger a recovery under the catastrophe bond

Consistency

Consider how the purchaser of the catastrophe bond is accounting for similar instruments and how they manage these instruments and monitor performance

Accounting policy

Remember the accounting policy choice as to whether to account for the catastrophe bond under IFRS 17 or IFRS 9 is irrevocable, so careful thought is needed regarding the outcomes under different potential scenarios

Unit of account

The accounting policy choice is made at the level of the portfolio and therefore any choice needs to be carefully documented for each relevant portfolio and thought given to the consistency of approach between different portfolios

System and process changes

A purchaser who has traditionally accounted for catastrophe bonds as insurance and wishes to change to accounting under IFRS 9, or vice versa, will need to consider the systems and process changes needed and the upskilling of relevant team members



Contact details

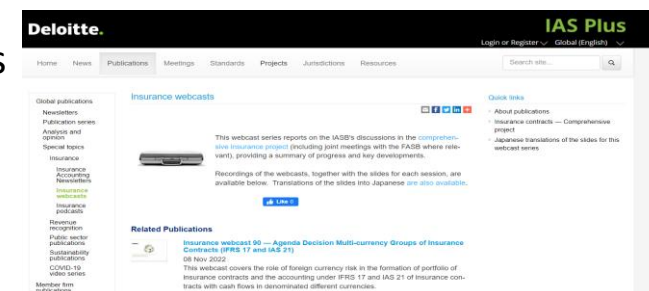
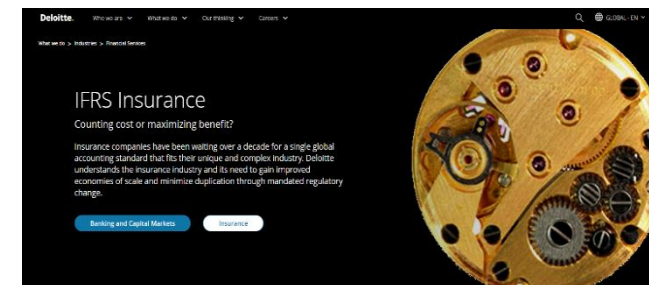
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