

Update on International and U.S.
Insurance Accounting Issues –
Including the Latest on Reserve Discounting

Panelists:

Ralph Blanchard, VP & Actuary, Travelers

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Mary Miller, P&C Actuary, Ohio Insurance Dept.

Disclaimer

Each of the panelists will be expressing their own views and opinions on various topics, including current insurance accounting issues. Their views and/or opinions are their own, and not necessarily those of their employers or professional associations they are affiliated with or members of.

Note: This session is being taped for placement on UCAS, the CAS On-Line University.

Outline

- Introduction (major issues, players, lingo) - **Blanchard**
- Current status, hot issues - **Trench**
- Impact on various actuarial initiatives - **Blanchard**

- Q&A
 - GAAP Accounting Standard setter – Mark Trench
 - Stat. Accounting reaction – Mary Miller
 - Financial Statement filer – Ralph Blanchard

Introduction – Major GAAP Issues

- Will there be one single set of GAAP accounting rules across the globe, used in U.S., Canada, Europe, Asia and elsewhere?
- Current status for GAAP insurance accounting?
- What are the major issues for insurance accounting?

Single set of GAAP rules?

- Currently, FASB (Financial Accounting Standards Board) sets the rules for the U.S.
 - **FASB authority to do so comes from the US SEC.**
- IASB sets IFRS (International Financial Reporting Standards)
 - **IFRS only applies if adopted by a country**
 - **IFRS currently adopted in European Union. To be adopted in Canada. Version adopted in Australia.**
- Two ways for the “single set” of rules to happen in the US
 - **Adopt IFRS**
 - **Convergence – US GAAP and IFRS evolve to the same thing.**

Current Status of GAAP Insurance Accounting?

- IFRS – No insurance standard currently exists.
- IFRS 4
 - Defines insurance,
 - Puts limits on what you can do for insurance,
 - Doesn't say what to do. (Says to use local GAAP or something else until an international insurance standard is completed.)
- Many filing "IFRS" are actually using FAS 60 for insurance.
- No such thing (currently) as using IFRS for insurance.

Current Status of GAAP Insurance Accounting?

- FASB and IASB are jointly developing new standards for:
 - **Insurance**
 - **Investments (financial instruments)**
- Those are the two most important parts of insurance company financials
- *Hence, US GAAP and IFRS are set to CONVERGE for major accounting rules for insurers.*

Major Insurance Accounting Issues?

Caveat – The set of major issues is very different for p&c vs. life insurance

- Premium – When is it recognized?
 - When written?
 - When billed?
 - Over coverage period?
 - Over payment period?
- *Revenue Recognition Project*
- *Related issue – What about Deferred Acquisition Costs (big issue for Life, much smaller for P/C).*

Major Insurance Accounting Issues?

- Losses – Measurement
 - Discounted? (if so, discount rate?)
 - Risk Margin?
 - Measurement attribute?
 - What you will ultimately pay?
 - What you would have to pay now to transfer? (current exit)
 - What you would be willing to pay now to settle/commute?
 - Mean, median, mode? (“Best estimate” vs. “Current Estimate”)
 - Prospective (fresh start) vs. Retrospective (lock-in)
 - “Own Credit Standing”

- Losses – If unearned premium goes away, what do you do for “pre-claims liability” (*Dead issue?*)

Major Insurance Accounting Issues?

- Self-Insurance – Liability Measurement (IAS 37 vs. FAS 5)
 - Discounted? (if so, discount rate?)
 - Risk Margin?
 - Measurement attribute?
 - What you will ultimately pay?
 - What you would have to pay now to transfer? (current exit)
 - What you would be willing to pay now to settle/commute?
 - Mean, median, mode? (“Best estimate” vs. “Current Estimate”)
 - Prospective (fresh start) vs. Retrospective (lock-in)
 - *Claim liability measurement – mimic self-insured liabilities or financial instruments?*

Current Status

Mark Trench

Member of the Joint FASB/IASB staff supporting the Insurance Project -
Also known as “phase II” of the IASB Insurance Project