


Future of Statutory Accounting

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Current Accounting in the U.S. For Insurers

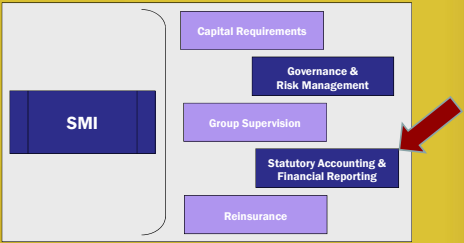
- Public companies file GAAP (typically consolidated)
- All insurers file SAP (by legal entity)
 - Risk Retention Groups can be filed on GAAP basis.
- More than half of insurers file only SAP filings.
 - But companies filing GAAP tend to be larger; so by direct written premium, 60% have GAAP & SAP; 40% are SAP only.

GAAP = Generally Accepted Accounting Principles – by FASB
SAP = Statutory Accounting Principles – by NAIC/states



Solvency Modernization Initiative (SMI)

Critically review the entire solvency regulatory framework in the U.S.



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graph TD; SMI[SMI] --- CR[Capital Requirements]; SMI --- GRM[Governance & Risk Management]; SMI --- GS[Group Supervision]; SMI --- SARF[Statutory Accounting & Financial Reporting]; SMI --- RE[Reinsurance];
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Current P&C Statutory Accounting

- Fully Codified
- GAAP Accept, Modify, or Reject
- P&C Valuation – principles-based, limited discounting

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Future of Codification

Possible Identified Choices (on a continuum)

- Freeze SAP
- GAAP/IFRS, with Statutory Adjustments (making a Stat. Balance Sheet, etc.)
- GAAP/IFRS, separate statutory schedules
- GAAP/IFRS without Adjustment

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NAIC Considerations

- How much "Control" do we need/want in the accounting basis itself?
 - Can we get all of the information we need through separate/additional reporting?
- Is Conservatism needed in the accounting model, or can it be handled in capital requirements?

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NAIC Considerations

- How do we best communicate with others?
 - SAP system works well between states; What about globally?
 - What about comparability?
- What's the appropriate impact on companies and the regulatory system?
 - Some possibilities for HUGE changes!
 - The entire regulatory system is built around the current SAP.

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Should Regulatory Statements Be Public?

- Today, the SAP statement is public.
 - Does this result in compromised decisions between what's best for regulation and what might be best for others?
 - Public statements can provide beneficial market pressures.
- Some items such as RBC are not public.
 - Should more disclosures be supervisory reporting only and not public disclosure?

The Future of Statutory Accounting

IASB

FASB

SEC

NAIC

Future of Accounting/Valuation???

Today

- Fully codified statutory accounting
(Accept, Modify, or Reject GAAP)
- Valuation (Reserving):
P&C Principles-Based;
Life Rules-Based
- Limited P&C discounting

➤ Possibilities: Anywhere from no change to utilizing GAAP/IFRS with some non-public statutory reporting

➤ Life Insurance principles-based reserving

➤ Does P&C discounting with an explicit margin give us better information? Is it better to have explicit risk margins than implicit ones?

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SMI Information

- NAIC Website www.naic.org
Solvency Modernization Initiative button
- See Paper *“Primary Considerations of a Policy Decision Regarding The Future of Statutory Accounting & Financial Reporting”*
- See consultation papers
 - capital requirements, accounting/valuation issues
 - governance and risk management
- Links to Task Forces & Working Groups

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