

**FASB ASU 2015-09 –
Disclosures about Short
Duration Contracts**

*Casualty Loss Reserve Seminar
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Agenda

- Introduction
- Current and proposed requirements
- Implementation challenges and other considerations

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Introduction

- What is it?
- Who is impacted?
- Why is it being implemented?

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What is it?

Accounting Standards Update (ASU) 2015-09, *Disclosures about Short-Duration Contracts*:

- Enhance the disclosure requirements for short-duration contracts issued by insurers
- Require interim claim liability rollforwards for long and short-duration contracts

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Who is impacted?

- Insurance companies that issue US GAAP financial statements, regardless of whether they file with SEC
- With the exception of the rollforward guidance, the additional disclosures pertain to short-duration insurance contracts only
- Applicability to long duration contracts and health insurance
 - Long duration contracts: Year-to-date interim period claim liability rollforwards and related qualitative information for the liability for unpaid claims and claim adjustment expenses are required
 - Health insurance contracts:
 - Historical average annual percentage payout is not required
 - IBNR+ is required in both interim and annual financial statements
 - Rollforward disclosure is disaggregated

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Why is it being implemented?

- Represents targeted changes that came out of the initial FASB project that would have significantly altered the model for accounting for insurance contracts
- Intended to provide users with more transparent information about an entity's liability estimates, including:
 - Initial claim estimates and subsequent adjustments
 - The methodologies and assumptions utilized when calculating the liabilities
 - A better understanding regarding the timing, frequency, severity, and uncertainty of cash flows

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Current and proposed requirements

- Differences between current SEC/NAIC and proposed FASB requirements
- Annual disclosure requirement – claim development table
- Example – claim development table
- Annual disclosure requirement – discounting and claim payout
- Example – claims payout
- Annual disclosure requirement – narrative disclosures
- Example – reconciliation

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Differences between current SEC/NAIC and new FASB requirements

Item	SEC	NAIC	FASB
Claim development table			
Basis	Consolidated	LoB by entity	Disaggregated
Organized by	Financial reporting year	Accident year	Accident year
Annual payout percentage	Not required	Not required	Annual requirement
Narrative disclosures	Limited	Limited	Increased transparency
Claim liability rollforward	Annually* (per Guide 6)	Annually	Interim & Annually

*Information for any additional interim periods should be provided to the extent necessary to keep the annual information from being misleading, such as where a material change in the information presented or the trend evidenced thereby has occurred.

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Annual disclosure requirement – claim development table

- Disaggregated basis
 - Judgement involved on how to disaggregate, but should not overlap segments
- Tabular amounts by accident year, as opposed to underwriting year
 - Incurred claims and allocated claim adjustment expenses
 - Cumulative paid claims and allocated claim adjustment expenses
- Undiscounted basis
- Net of reinsurance
- By accident year
 - The sum of IBNR and expected development on reported claims ("IBNR+")
 - Claim frequency (unless impracticable) along with a description of how it's measured

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Example – claim development table

Homeowners Insurance (\$000's)

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of 12/31/2016	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR ¹	Sum of Stat Claims
2007	\$ 10,000	\$ 9,900	\$ 9,700	\$ 9,800	\$ 9,750	\$ 9,750	\$ 9,600	\$ 9,650	\$ 9,575	\$ 9,550	\$	\$ 5
2008		10,050	11,000	10,600	10,750	10,850	10,600	10,250	10,150	10,250		30
2009			12,000	11,750	11,500	10,900	10,900	10,850	10,750	10,500		90
2010				12,300	12,300	12,400	12,400	12,400	12,150	12,000		380
2011					12,300	12,500	12,650	12,750	12,800	12,850		900
2012						12,800	12,900	12,750	12,700	12,700		1,100
2013							13,000	13,200	13,100	13,150		1,600
2014								13,150	13,250	13,300		2,100
2015									13,500	13,250		260
2016										13,750		5,000
										Total		\$121,300

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
2007	\$ 3,000	\$ 5,000	\$ 5,500	\$ 6,000	\$ 6,800	\$ 7,500	\$ 8,500	\$ 9,000	\$ 9,050	\$ 9,075	
2008		3,500	6,750	6,500	7,500	7,750	8,250	8,500	8,900	9,300	
2009			3,750	6,000	6,500	7,500	7,900	8,250	8,950	9,700	
2010				3,750	6,250	7,250	7,750	8,900	9,700	9,950	
2011					4,250	5,500	6,750	8,000	8,950	9,350	
2012						4,125	5,250	7,000	8,000	9,000	
2013							4,500	5,750	7,250	7,750	
2014								4,600	6,000	6,950	
2015									4,750	6,125	
2016										4,850	
										Total	\$ 62,150

All outstanding liabilities before 2007, net of reinsurance: **\$ 1,400**
 Liabilities for claims and claim adjustment expenses, net of reinsurance: **\$ 20,550**

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Annual disclosure requirement – discounting and claim payout

- The effect discounting has on the financial statements
 - The aggregate amount of discount
 - The amount of interest recognized during the period
 - The line item in which interest accretion is classified

- Historical average annual percentage payout of incurred claims (i.e., claim duration)

Example – historical average annual percentage claims payout

Calculated incremental payments (% of incurred losses)

Accident Year	For the Years Ended December 31,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	31.4%	20.9%	5.2%	5.2%	8.4%	7.3%	10.5%	5.2%	0.5%	0.3%
2008		34.1%	22.0%	7.3%	9.8%	2.4%	4.9%	2.4%	4.9%	4.9%
2009			35.7%	21.4%	4.8%	9.5%	3.8%	3.3%	6.7%	7.1%
2010				31.3%	20.8%	8.3%	4.2%	9.6%	6.7%	2.1%
2011					33.1%	9.7%	9.7%	7.4%	7.4%	2.3%
2012						32.5%	8.9%	13.8%	7.9%	7.9%
2013							34.2%	9.5%	11.4%	3.8%
2014								34.6%	10.5%	7.1%
2015									35.8%	10.4%
2016										35.3%

Average = 33.8%

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Homeowners' Insurance	33.8%	14.9%	8.5%	7.2%	6.6%	4.9%	5.4%	5.7%	2.7%	0.3%

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Annual disclosure requirement – narrative disclosures

- Significant changes in methods or assumptions used in calculating claim liabilities
- A reconciliation of the claims development tables to the aggregate liability stated in the balance sheet

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Example – reconciliation

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claims Adjustment Expenses

December 31, 2016

<i>Net Outstanding Liabilities</i>	
Homeowners' Insurance	\$ 40,550
Other short-duration insurance lines	1,976
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	42,526
<i>Reinsurance recoverable on unpaid claims</i>	
Homeowners' Insurance	13,880
Other short-duration insurance lines	293
Total reinsurance recoverable on unpaid claims	14,173
<i>Non-short duration items</i>	
Insurance lines other than short-duration	3,315
Unallocated claims adjustment expenses	2,420
Other	10
Subtotal - non-short duration unpaid claims	5,745
Total gross liability for unpaid claims and claim adjustment expense	\$ 62,434

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Implementation Challenges and Other Considerations

- Implementation challenges
- Audited Information vs. Required Supplementary Information ("RSI")
- Illustrative implementation plan

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Implementation challenges

- Short timeframe to adapt requirement changes
- This level of reporting for may not be readily available from foreign operations
- Processes and systems will likely need to be updated
- Level of disaggregation
- Claim frequency
- Acquisitions, dispositions, and other significant business modifications
- Foreign exchange

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Audited Information vs. RSI

- Only the most recent reporting period's claims development information is required to be audited
 - Paid and incurred
 - IBNR+
 - Claim frequency
- All prior reporting periods may be considered Required Supplementary Information (RSI)
- The historical claims payout percentage disclosure may be considered RSI

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Illustrative implementation plan

Summary to Date

- Accounting Standards Update (ASU) 2015-09 has been finalized and was issued in May of 2015
- Effective for public business entities for annual reporting periods beginning after December 15, 2015 (i.e., 2016 for calendar year end entities), and interim reporting periods thereafter.

Next steps (Q3 & Q4 2015)

- Understand the requirements of the new standard and hold trainings for your employees
- Perform gap assessment and assess data available and current systems processes and controls.

Final standard issued

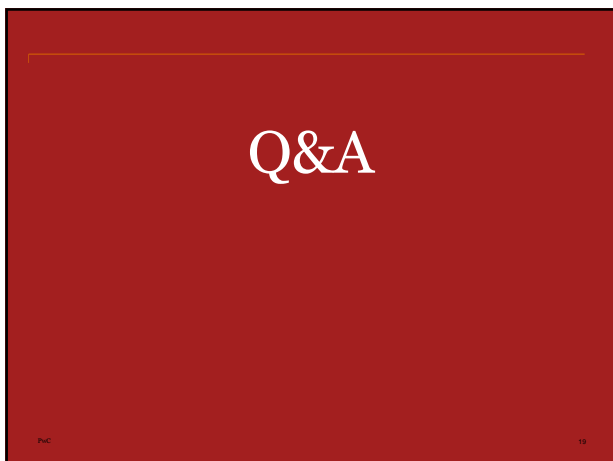
Effective date for public entities

Effective date for non-public entities

Approach – key milestones, significant activities and timeline

	2015				2016				2017			
	Q3	Q4	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<ul style="list-style-type: none"> • Understand the requirements of the new standard and hold trainings for your employees • Perform gap assessment (data, systems processes) • Begin initial implementation phase, if possible • Design process and potential system updates to address process or information gaps that exist • Monitor industry developments and industry practice or interpretations that arise for applicability to disclosures • Engage auditors in discussion plan for procedures 	<ul style="list-style-type: none"> • Completion of implementation phase (consideration of processes, systems and controls) • Consider performing a "dry run" using Q1 interim data, for example • Monitor results and adjust systems and processes as necessary • Engage auditors in "dry run" to determine level of testing required and plan for year end audit procedures 				<ul style="list-style-type: none"> • Potential to extend timeline for private clients (as standard is effective for private 2017 calendar year end companies) 							

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