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Study of Insurance Economics

# Études et Dossiers

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Layout & Distribution: Valéria Kozakova

# Non-Life Insurance Accounting

Richard Hextall

## **Insurance Contracts Phase II – A preparer’s perspective**

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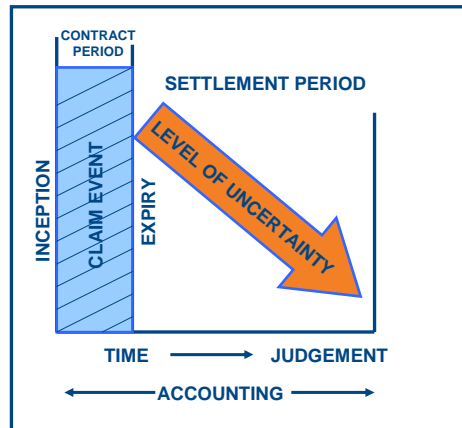
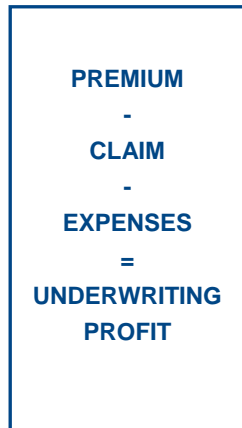


- Non-life needs tuning, not wholesale change
- Need for greater consistency on framework surrounding key liability judgements
- Need for alignment of asset and liability accounting
- Need for improved disclosure



Keep it simple (as possible!)

FINANCIAL PROPOSITION



Alternative views



CURRENT EXIT VALUE



MARKET DRIVEN

FULFILLMENT VALUE

(i)



(ii)



(iii)



ENTITY SPECIFIC

### Calibrating a risk margin



- Compensation or cost of bearing risk
- Risk Margin = Risk Capital x Cost of Capital
- Highly judgemental
- Considerable variance at levels of portfolio - what value diversification?
- Correlation dynamics for a speciality business
- Guidance?

### CONCLUSIONS



- Overall : an improved model ?
- Creates a highly complex world
- May not deliver consistency
- Forecasting is a challenge, but it always was
- Good and full disclosure will be essential.