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Insurance Contracts - IASB's Joint Project with the FASB

Hans van der Veen

Overview

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- Basic model
 - discussion paper and responses
- Measurement approaches
 - candidates, key considerations
- Other major issues
- Timing and other projects



Basic model

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Discussion paper

- Three building blocks:
 - current estimates of future cash flows
 - time value of money
 - a margin
- Label for the result:
 - current exit value

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Basic model

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Responses

- Three building blocks
- Non-life issues
- Day one profit
- How to estimate margins
- ‘Settlement over time’ or immediate exit?
 - entity-specific expenses

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Measurement approaches

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Selected 5 candidates to discuss:

- With the IASB in October 2008 (educational session)
- With the Insurance Working Group in November 2008 (feedback session)
- With the Boards early 2008? (for direction)

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Measurement approaches continued

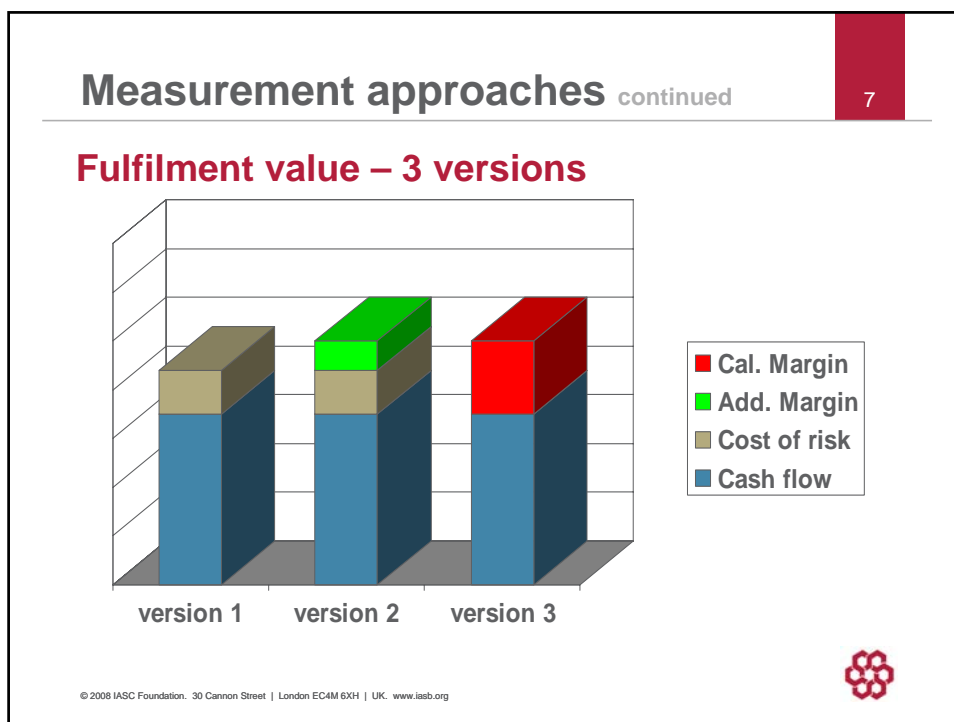
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Candidates (tentatively):

- (1) Current exit value (as in DP)
- Current fulfilment value (3 versions)
 - (2) risk margin based on cost of bearing risk
 - (3) risk margin based on cost of bearing risk plus an 'additional margin'
 - (4) margin calibrated at inception to the premium
- (5) Unearned premium – pre-claims short-duration

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- ## Measurement approaches continued
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-
- ### Building block candidates (1-4) - similarities
- Observable market prices for discount rate etc.
 - Current estimates of cash flows
 - Changes in estimates in profit or loss
 - Reflecting time value of money
 - Including a risk margin
 - Day one revenue related to acquisition costs
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Measurement approaches continued

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Building block candidates (1-4) - differences

- Transfer versus fulfilment:
 - Estimates with no observable market data
 - Cash flows from the characteristics of the entity
 - Own credit risk
- Margins and 'day one':
 - Estimating the risk margin
 - Service margins
 - Treatment of 'day one differences'

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Measurement approaches continued

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Some key points for consideration:

- Measurement objective:
 - Transfer or fulfilment?
- Margins and 'day one':
 - The premium as basis for the margin or not?
- Measurement attribute:
 - Are the candidates attributes?

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Other Major Issues

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- Whole contract or individual rights and obligations?
 - policyholder behaviour
 - participating contracts
- Discount rate
 - what to include?
 - how to be determined?
- Reporting changes in insurance liabilities
- Credit characteristics

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Other relevant projects

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- Conceptual framework
- Revenue recognition
- Liabilities / equity
- Financial statements presentation
- Financial instruments
- Fair value measurements
- Non-financial liabilities (IAS 37)

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Phase II timetable

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Item	Due date
Comments due	16 November 2007
FASB agenda decision	29 October 2008
Exposure draft	2009?
Standard	2011?
Implementation	?

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