



International Association for the
Study of Insurance Economics

Études et Dossiers

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**The 20th PROGRES International Seminar
“New Developments in the Regulation and
Supervision of Financial Services”**

4 – 5 November 2004
Hotel President Wilson, Geneva

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Insurance accounting standards – an update

Douglas Barnert

**Geneva Association
The 20th PROGRES International Seminar**

New Developments in the Regulation and Supervision of Financial Services

Insurance Accounting Standards: an update

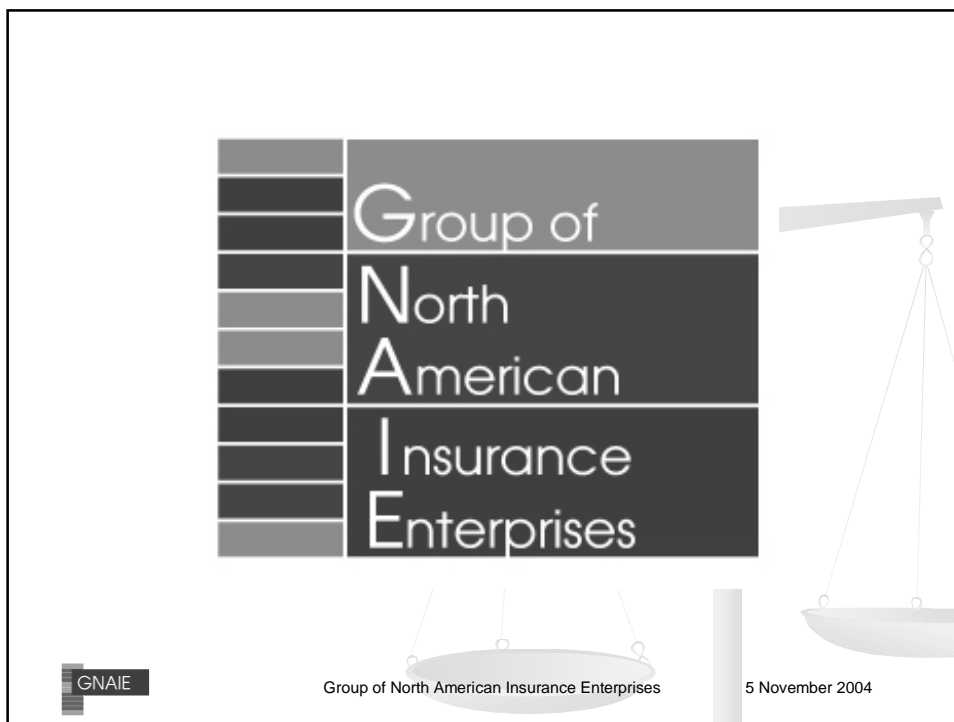



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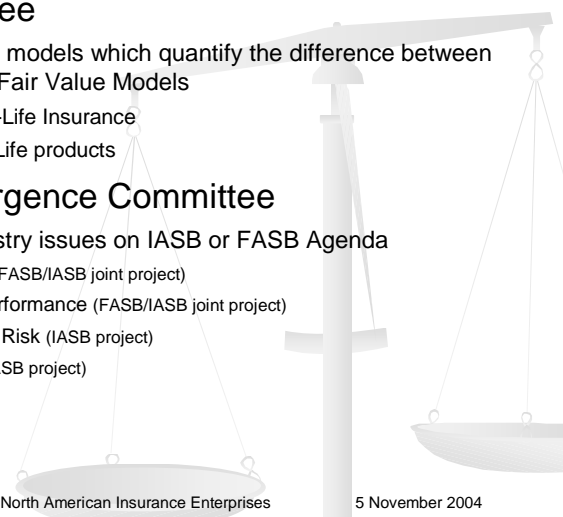
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Geneva







Committees of GNAIE

- **Research Committee**
 - Focused on developing models which quantify the difference between US GAAP and Certain Fair Value Models
 - First a Study on Non-Life Insurance
 - Second, A Model for Life products
- **Accounting Convergence Committee**
 - Review insurance industry issues on IASB or FASB Agenda
 - Revenue Recognition (FASB/IASB joint project)
 - Reporting Financial Performance (FASB/IASB joint project)
 - Disclosure of Financial Risk (IASB project)
 - Insurance Contracts (IASB project)

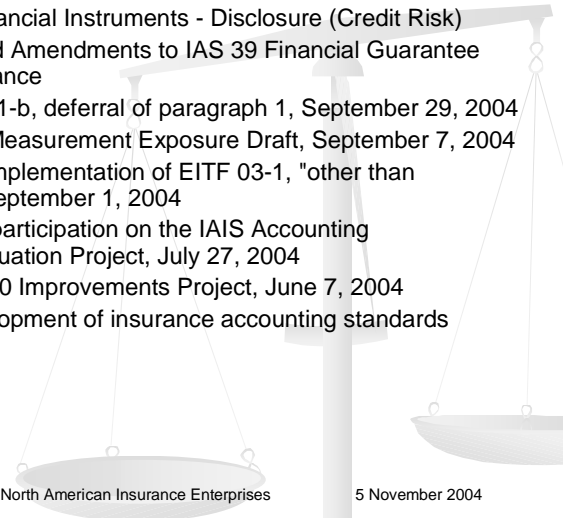



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Activities of GNAIE

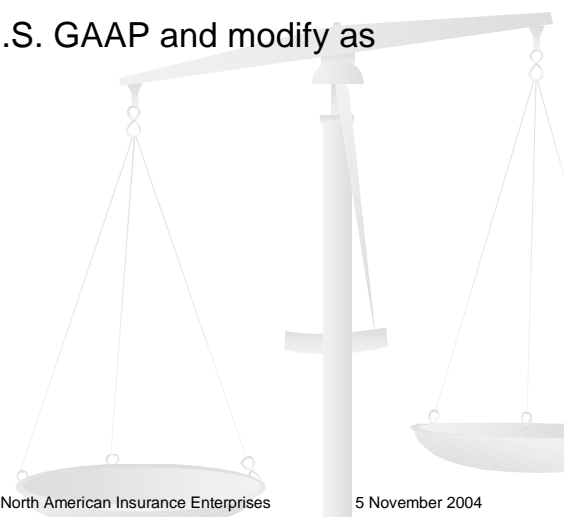
- Letter to IASB re: ED7, Financial Instruments - Disclosure (Credit Risk)
- Letter to IASB re: Proposed Amendments to IAS 39 Financial Guarantee Contracts and Credit Insurance
- Letter to FASB on FSP 03-1-b, deferral of paragraph 1, September 29, 2004
- Letter to FASB on the FV Measurement Exposure Draft, September 7, 2004
- Letter to FASB regarding implementation of EITF 03-1, "other than temporary impairments", September 1, 2004
- Letter to NAIC IASWG on participation on the IAIS Accounting Subcommittee's Future Valuation Project, July 27, 2004
- Letter to IASB on the IAS 30 Improvements Project, June 7, 2004
- Letter to IASB on the development of insurance accounting standards June 11, 2003




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GNAIE's Views

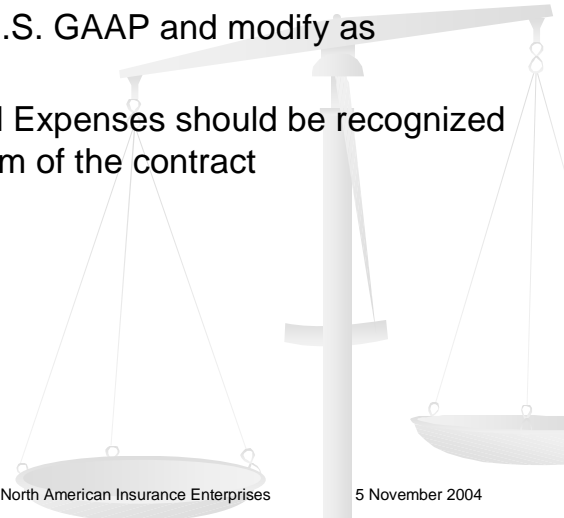
- Start with U.S. GAAP and modify as appropriate




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GNAIE's Views

- Start with U.S. GAAP and modify as appropriate
- Income and Expenses should be recognized over the term of the contract



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GNAIE's Views

- Start with U.S. GAAP and modify as appropriate
- Income and Expenses should be recognized over the term of the contract
- Applying "Fair Value" to insurance liabilities is a serious conceptual error

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GNAIE's Views

- Start with U.S. GAAP and modify as appropriate
- Income and Expenses should be recognized over the term of the contract
- Applying "Fair Value" to insurance liabilities is a serious conceptual error
- Immediate recognition of income and expenses and reporting all periodic changes in value through the income statement above the line would be at variance with today's emphasis on:
 - Accounting transparency
 - Understanding financial reporting

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GNAIE's Views

- Start with U.S. GAAP and modify as appropriate
- The Deferral and Matching Principle should be retained
- Applying "Fair Value" to insurance liabilities is a serious conceptual error
- Immediate recognition of income and expenses and reporting all periodic changes in value through the income statement above the line would be at variance with today's emphasis on:
 - Accounting transparency
 - Understanding financial reporting
- IASB should not replace these standards with an untested experimental approach

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GNAIE's Views

- Start with U.S. GAAP and modify as appropriate
- Income and Expenses should be recognized over the term of the contract
- Applying "Fair Value" to insurance liabilities is a serious conceptual error
- Immediate recognition of income and expenses and reporting all periodic changes in value through the income statement above the line would be at variance with today's emphasis on:
 - Accounting transparency
 - Understanding financial reporting
- IASB should not replace these standards with an untested experimental approach
- The obligation should be on IASB to demonstrate that such a radical new approach is better

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The Impact of an Anticipated Fair Value Accounting Framework on US GAAP Reporting P&C (Non-Life) Insurers



August 2004

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Ernst & Young Conclusions

- Equity Will Likely Increase
- The Revaluation of Discounted Loss Reserves Causes Volatility in Underwriting Income
- Changes in the Market Value of Assets Cause Volatility in Net Income
- Changes in the Expected Payment Pattern Cause Volatility In Underwriting Income
- Changes in the Market Value Margins Cause Volatility in Underwriting Income
- The Provision for Insurer's Own Credit Standing Will Impact Underwriting Income

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Judgment and Estimates Increase

- **Fair Value Requires Increased Use of Management Judgment and Subjective Estimates.**

These include:

- The approach and quantification of the Market Value Margin.
- The expected profit associated with US GAAP unearned premium.
- Explicit provisions for the amount and timing of claim and expense payments (payout pattern).
- Future interest rates.

- **Changes in Fair Value Judgments May Produce Trends in Reported Fair Value Results that are Inconsistent with US GAAP**

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Convergence

- Definition
- IASB /FASB Convergence
- IASB/ASBJ Convergence

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Conceptual Framework

- Fair Value Hierarchy
- Exposure Draft
- Comment Letters and Roundtable
- Redeliberation



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Business Combinations

- First Standard Alpha-Zeta
- Dual Discussions
- Exposure Draft to Standard
- Add Fair Value Hierarchy



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Revenue Recognition

- General Approach
 - FASB Project
 - IASB Project
- Fair Value all Assets and Liabilities
- Report Periodic Changes in Income Statement
- Insurance Issues
 - Revenue for insurance contracts-defined in US GAAP
 - IASB/FASB Projects do not consider
 - Scope Out Insurance Contracts or Include in Papers
 - Should be part of Insurance Contracts

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Other issues

- Reporting Comprehensive Income
- ED 7 - Financial Instruments; *Disclosure of Credit Risk*
- Amendments to IAS 32/39 re: Credit Insurance

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What Does the Future Hold?

Possible Timing:

- Final IASB Insurance Contracts standard by 2007/2008
- Gradual Convergence with FAS with ultimate in 2009/2010



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