



International Association for the  
Study of Insurance Economics

# Études et Dossiers

---

## Études et Dossiers No. 304

**2<sup>nd</sup> International Insurance and  
Finance Seminar of  
The Geneva Association**

**Hosted by AVIVA plc**

10 – 11 November 2005  
London

December 2005

**Working Paper Series of  
The Geneva Association**

© Association Internationale pour l'Etude de l'Economie de l'Assurance

The Geneva Association - General Secretariat - 53, route de Malagnou - CH-1208 Geneva  
Tel.: +41-22-707 66 00 - Fax: +41-22-736 75 36 - [secretariat@genevaassociation.org](mailto:secretariat@genevaassociation.org) - [www.genevaassociation.org](http://www.genevaassociation.org)

The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. As they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Valéria Kozakova

# The IASB's Project on Insurance Contracts

Peter Clark

## Overview



- Background
- Phase II:
  - ★ *Non-life*
  - ★ *Life insurance*
  - ★ *Other relevant projects*
  - ★ *Timetable*
- Convergence

November 2005

## Background on insurance contracts



International  
Accounting Standards  
Board

- Before 2004:
  - ★ *No IFRS on insurance contracts*
  - ★ *Scope exclusions from other IFRSs*
- Diversity
  - ★ *between insurers*
  - ★ *from other sectors*
- Need to open up the 'black box'
- IFRS 4 *Insurance Contracts (2004)*

November 2005

## Background



International  
Accounting Standards  
Board

- Phase II dormant since January 2003
- Restarted 2004
  - ★ *Insurance Working Group to advise the IASB*
  - ★ *A clean sheet of paper*
  - ★ *Past work (DSOP) is a useful resource, but the conclusions do not bind the IASB*
  - ★ *Role of the IASB's conceptual Framework*

November 2005

## Phase II – tentative Board decisions so far (1)



International  
Accounting Standards  
Board

- Unbiased estimate of cash flows
  - ★ *Principles, not detailed guidance*
  - ★ *Likely to use expected value*
- Non-life claims liabilities
  - ★ *Discounting*
  - ★ *Risk adjustments*

November 2005

## Phase II – tentative Board decisions so far (2)



International  
Accounting Standards  
Board

- Considering two approaches for non-life 'pre-claims' period:
- Unearned premium approach
  - ★ *Deferral of (some) acquisition costs*
  - ★ *Liability adequacy test (with discounting and risk adjustment)*
- Future cash flows approach
  - ★ *With discounting and risk margins*
  - ★ *Same as for claims liabilities*

November 2005

## Phase II – life insurance



International  
Accounting Standards  
Board

- Board has not yet discussed
  - ★ *likely to start early 2006*
- Working group – most favour either:
  - ★ *Current entry value, or*
  - ★ *Current exit value*

November 2005

## Current entry value – at inception



International  
Accounting Standards  
Board

- Calibrate margin (per unit) to premium and acquisition costs
- Test for adequacy
  - ★ *including margin (how calibrated?)*
  - ★ *unit of account?*

November 2005

## Current entry value – subsequently



International  
Accounting Standards  
Board

- Unbiased estimate of expected cash flows
- Margin
  - ★ *As calibrated at inception*
- Acquisition costs
  - ★ *Not recognised as separate asset*

November 2005

## Current exit value



International  
Accounting Standards  
Board

- Unbiased expected cash flows
- Margin
  - ★ *As required by market participants*
- Acquisition costs
  - ★ *Not recognised as separate asset*
- Gain or loss at inception
  - ★ *Not prohibited*
  - ★ *Present value only*

November 2005

## **Other points**



- Focus on contractual rights and obligations
- Embedded options and guarantees
- Policyholder cancellation options
- Participating contracts
- Asset/Liability interaction
- Investment contracts

November 2005

## **Other relevant projects**



- Conceptual Framework
- Revenue
- Liabilities / equity
- Performance reporting
- Financial instruments

November 2005

## Phase II timetable



International  
Accounting Standards  
Board

Restart	2004
Discussion paper	Q3 / Q4 2006
Exposure draft	2007 / 2008
Final standard	2008 / 2009

November 2005

## Convergence – general



International  
Accounting Standards  
Board

- A high priority
- SEC 'roadmap'
  - ★ *eliminate reconciliation to US GAAP?*
- A two-way process

November 2005

## Convergence – insurance contracts



International  
Accounting Standards  
Board

- A ‘modified joint’ project
  - ★ *FASB may join after Discussion Paper*
- US mini projects on insurance:
  - ★ *Risk transfer*
  - ★ *Financial guarantees*
  - ★ *Life settlements*

November 2005