IASC - Recognition and Measurement

• Issue 4 - What should be the Overall Objectives of a Recognition and Measurement System for Insurance Contracts?

• Issue 5 - To what extent should the Measurement of an Insurer's Assets Affect the Measurement of its Liabilities?
Recognition and Measurement

- Issue 6 - What Assumptions and Conventions should be used in Measuring Insurance Liabilities?
- Issue 7 - What Assumptions and Conventions should be used in Accounting for General Insurance Contracts?
- Issue 8 - What Assumptions and Conventions should be used in Accounting for Life Insurance Contracts?

Issue 4 - Overall Objectives?

- To create General Purpose Financial Statements
- Traditional Deferral & Matching approach is NOT appropriate
- Asset & Liability Measurement is preferable
Issue 5 - Should Assets Affect Liabilities?

- Measurement basis for assets and liabilities should be CONSISTENT

- Value of Liabilities should NOT be affected by assets

Issue 6 - What Assumptions and Conventions?

- On basis of block of similar contracts, NOT on individual contracts

- Closed Book Approach reflecting only renewals where contract commits insurer to specified pricing structure for renewals

- Cash flows from other possible renewals NOT recognized
Issue 6 - What Assumptions and Conventions?

- EXPLICIT approach to all assumptions
- Assumptions based on CURRENT information
- Measurement based on MARKET expectations to extent possible

Issue 7 - General Insurance Contracts?

- Unearned Premium Reserves - gone!
- Deferred Acquisition Expenses - gone!
- Replaced by - Provision for Unexpired Risk
Issue 7 - General Insurance Contracts?

- PUR is equal to estimated cost of claims from future insured events covered by existing contracts
- Acquisition costs treated as expense at time incurred
- No Catastrophe or equalization reserves

Issue 7 - General Insurance Contracts?

- PRESENT VALUE approach to measuring claim costs
- Discount Rate equal to risk free rate, WITH MARGIN for uncertainty of timing or amount
Issue 7 - General Insurance Contracts?

- Questions/Issues
  - Treatment of Renewals
  - Treatment of Continuous Policies
  - ASO contracts
  - Different for life and P&C

Issue 8 - Life Insurance Contracts?

- IASC approach is close to current Canadian model except for de-linking of assets and liabilities.