IASC Insurance Accounting

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Topics to be covered

- Introduction to IASC Issues Paper
- Scope of Issues Paper
- Fair value issues
Introduction to IASC Issues Paper

- IASC formed Steering Committee on Insurance in 1997 since,
  - Insurance is important international industry
  - Current diversity of accounting practice
  - No current IA Standards for insurance
- December 1999 release of Issues Paper on insurance for comment - first step
- Comment deadline May 31, 2000

Introduction to IASC Issues Paper

- Next steps,
  - Review comments - Sept. 2000
  - Draft Statement of Principles
  - Final Statement of Principles
  - IASC Board Approval
Introduction to IASC Issues Paper

- Importance of Issues Paper
  ✓ Potential for global standard
  ✓ Internationalization of insurance
  ✓ Financial sector convergence
  ✓ Opportunity for actuarial profession to make key contribution

Introduction to IASC Issues Paper

- Related activity
  ✓ IAIS Solvency Committee
  ✓ IOSCO endorsement
  ✓ IAA submission
  ✓ Joint submissions from some countries
Scope of Issues Paper

20 "Basic Issues" are grouped in categories,
✓ Scope
✓ Project Timetable
✓ Recognition & Measurement
✓ Participating Contracts
✓ Reinsurance
✓ Fair Value Issues

Scope of Issues Paper

20 "Basic Issues" are grouped in categories (cont’d),
✓ Deferred Tax
✓ Reporting Enterprise, Consolidation and Business Combinations
✓ Interim Financial Reports
✓ Presentation and disclosure
Scope

Basic Issue #1 - Should the project cover all aspects of accounting by insurers or mainly on insurance contracts of all enterprises.

- IASC believes focus s.b.on insurance contracts
- IAA draft response concurs, but notes measurement of liab. value can't be done alone w/o consistent treatment of the assets used to fund the insurance obligations

Related sub-issues to Basic Issue #1

- Appropriate disclosure and presentation
- Insurance contracts vs financial instruments
- Distinguishing features of an insurance contract
- Definition of an insurance contract
- Amount of uncertainty to qualify as insurance
- Unbundling of components of insurance contract
- Distinction between general and life insurance
Scope

Basic Issue #2 - Should project deal with other financial instruments held by insurers
- IASC believes project should deal only with insurance contract Fl's
- IAA agrees to focus on insurance contracts; need for similar treatment for backing assets; need for consistency with other similar Fl's

Project Timetable

Basic Issue #3 - Should IASC issue provisional guidance on insurance accounting or disclosure
- IASC believes not, since project is a complex one with diversity of country practices and is closely intertwined with work of JWG on Fl's
- IAA agrees and urges the need for sufficient run-in time for implementation by companies
Fair Value Issues

I Basic Issue #11 - *What issues are raised by the use of fair value in the measurement of insurance obligations*

I Sub-issue: *Are insurance contracts FI's*

✓ IASC says yes

✓ IAA concurs, comments on need for similar treatment of same risks issued by another type of company, need to look at entire insurance contract

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Fair Value Issues

I Sub-issue: *Should insurance contracts be included at FV*

✓ IASC says if other enterprises use FV for FI's then insurers should also; FV's of financial assets and liabilities s.b. consistent

✓ IAA concurs, consistency is fundamental; encourages IASC principles for FV not specific methods
Fair Value Issues

Sub-issue: *Should FV use return on insurer's assets*
✓ IASC evenly divided on this issue
✓ IAA believes risk adjusted cash flows should be discounted at the asset yield of a replicating asset portfolio; mismatch risk between replicating portfolio and actual liab. CF's to be in liab. amount

Fair Value Issues

Sub-issue: *Should FV of IC's include provision for risk inherent in those contracts*
✓ IASC concurs; recognizes difficulty in calculation
✓ IAA believes inclusion of risk margin in FV is essential; recognizes need for work to quantify the various risks
Fair Value Issues

Sub-issue: Does a FV system for IC's include deferred acquisition costs
✓ IASC believes FV s.b. prospective; hence no place for DAC
✓ IAA concurs

Sub-issue: Is the embedded value method an appropriate approach for FV of insurance assets and liabilities
✓ IASC believes EV's should not be recognized as assets to correct for inappropriate liab. Values; EV's can be used for disclosure
✓ IAA concurs