

Update: IASB/FASB Joint Project on Insurance Contracts

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Key Players

❖ **IASB-** *International Accounting Standards Board*

- **IFRS** International Financial Reporting Standards – after 2001
- **IAS** International Accounting Standards – before 2001

❖ **FASB-** *Financial Accounting Standards Board*

- **ASC** Accounting Standards Codification



Presentation Overview

- ❖ Insurance Contract Project – a look back
- ❖ How different does the future of insurance accounting look?
- ❖ When/Will this train reach the station?





Accounting Goes Global



Summarized History

- 2002** IASB and FASB Announce Initiative to Achieve Compatibility in Financial Reporting Standards “Norwalk Agreement”
- 2003** EU Endorses Use of IFRS/ 2005- 25 EU Countries Switch to IFRS
- 2006** IASB and FASB Issued a Memorandum of Understanding
-Creating a joint project to establish a common global standard
- 2008** SEC Publishes Roadmap for IFRS Adoption
FASB Joined the “Insurance Contracts” Project
- 2010** SEC Publishes Work Plan for transitioning U.S. issuers to IFRS –
decision to be made in 2011
- 2011** SEC releases “Condorsment” model for comment



IFRS Insurance Project

Project Two Phases:

IFRS 4 - Phase I
(issued in 2004)

- Definition of an insurance contract
- An interim standard and permits a wide range of accounting practice (effectively, use historical local GAAP)

IFRS 4- Phase II

- Provide for a single measurement approach for Life, Health, P&C and reinsurance
- Recognition, presentation and disclosures



IASB/FASB Joint Project

❖ Phase II - Objectives:

- Develop common, high-quality guidance that will address recognition, measurement, presentation, and disclosure requirements for all insurance contracts (including reinsurance).
- Address volatility and timing risk within measurement model





Joint Project- Insurance Contracts

- ❖ Exposure draft (“ED”) issued by IASB in July 2010
- ❖ Discussion paper (“DP”) issued by FASB in September 2010
 - Comment periods ended at end of 2010
 - Initially expected to have a final standard by mid-2011
- ❖ Exposure drafts have been delayed as the Boards continue to discuss the models



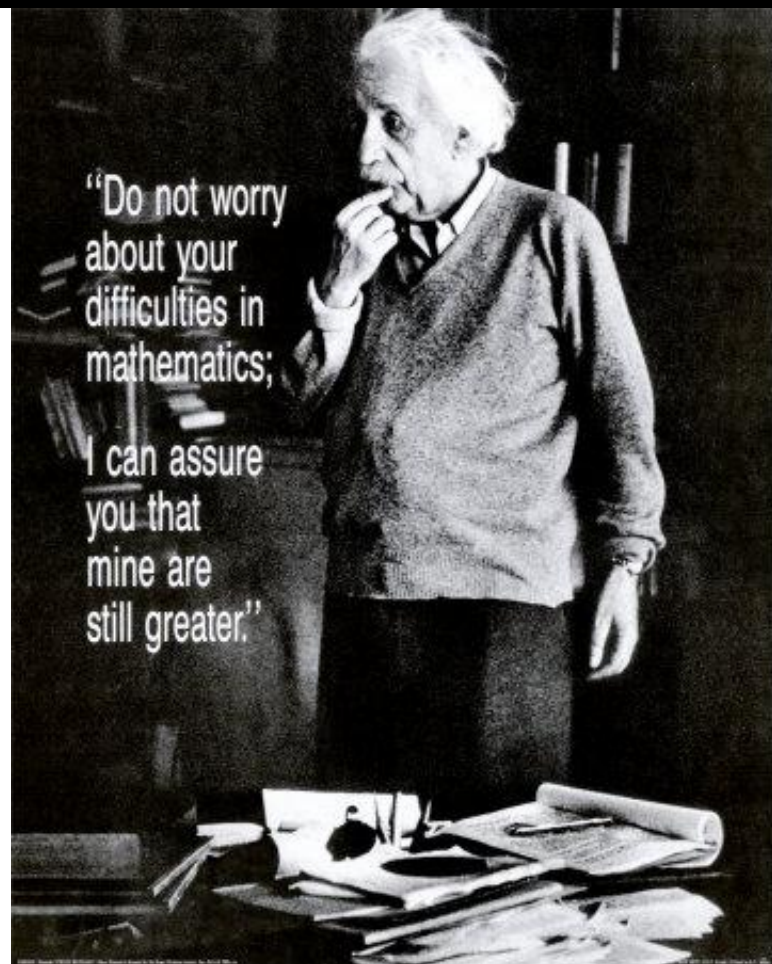
Why do we care?

❖ Potential Changes if implemented are:

- Likely to increase loss reserves
- More work for management, actuaries and auditors

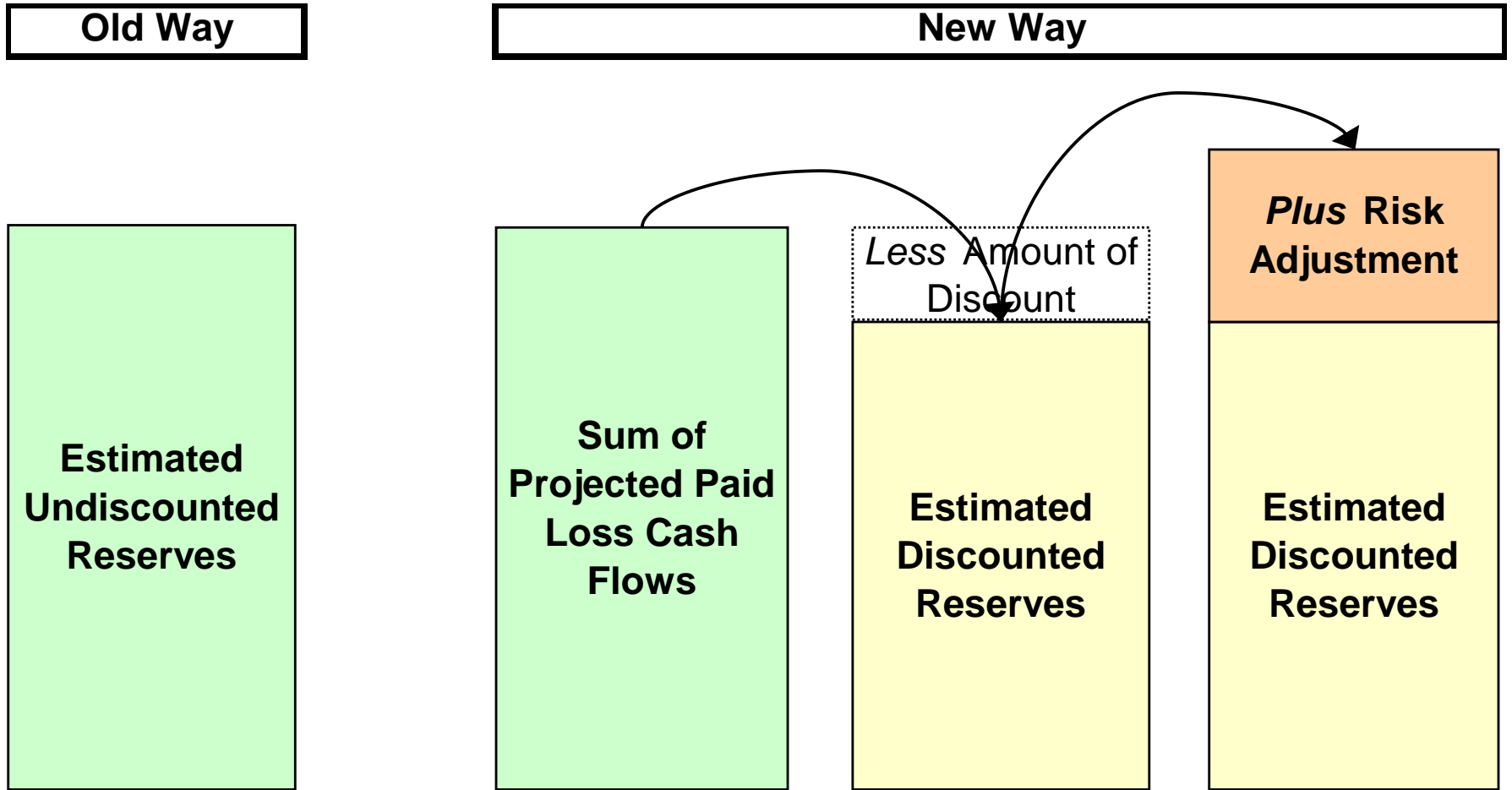
❖ Presentation

- Potentially much different view into an insurance company operations





Calculation of Reserves





Building Block Approach

IASB

Block	Description
Block 1	Estimate of <u>future cash outflows less cash inflows</u> that will arise as the insurer fulfils the insurance contract
Block 2	<u>Discount rate</u> that adjusts those cash flows for the time value of money
Block 3	<u>Risk adjustment</u> for the effects of uncertainty about the amount and timing of those future cash flows
Block 4	<u>Residual margin</u> to eliminate any gain at inception

PV of
Fulfillment
Cash
Flows

FASB

Block	Description
Block 1	Estimate of <u>future cash outflows less cash inflows</u> that will arise as the insurer fulfils the insurance contract
Block 2	<u>Discount rate</u> that adjusts those cash flows for the time value of money
Block 3	<u>Composite margin</u> to eliminate any gain at inception and includes an implicit risk adjustment margin and residual margin



Fatally Flawed?

- ❖ “Current proposals and time lines from the International Accounting Standards Board contain flaws that will introduce ‘significant noneconomic volatility for long-duration life contracts and will obscure underwriting results for the property/casualty insurance business.’”
 - Jerry de St. Paer, executive chairman of the Group of North American Insurance Enterprises Inc.



Where Are We Now?

❖ Meetings continue in 2011...

- October 14, 2011 ???
- September 19, 2011 [Joint Board Meeting](#)—Risk Adjustment and Disclosures
- September 7, 2011 [Board Meeting](#)—Single Margin and Liability for Incurred Claims
- July 21, 2011 [Joint Board Meeting](#)—Premium Allocation Approach
- June 15, 2011 [Joint Board Meeting](#)—Statement of Comprehensive Income
- June 13, 2011 [Joint Board Meeting](#)—Residual Margin and Acquisition Costs
- May 31, 2011 [Joint Board Meeting](#)—Reinsurance
- May 17-18, 2011 [Joint Board Meeting](#)—Risk Adjustment
- May 11, 2011 [Joint Board Meeting](#)—Policyholder Participation
- May 4, 2011 [Joint Board Meeting](#)—Unbundling
- April 27, 2011 [Joint Board Meeting](#)—Modified Approach
- April 12, 2011 [Joint Board Meeting](#)—Discount Rate
- March 29, 2011 [Joint Board Meeting](#)—Unlocking the Margin and the Insurance Working Group Meeting
- March 22, 2011 [Joint Board Meeting](#)—Risk Adjustment and Contract Boundary
- March 21, 2011 [Joint Board Meeting](#)—Risk Adjustment, Discount Rate, and Unbundling
- March 15, 2011 [Joint Board Meeting](#)—Risk Adjustment, Discount Rate, Initial Recognition, and Definition
- March 14, 2011 [Joint Board Meeting](#)—Presentation, Composite Margin, and Discount Rate
- March 2, 2011 [Joint Board Meeting](#)—Scope, Field Tests, Uncertainty, and Acquisition Costs
- March 1, 2011 [Joint Board Meeting](#)—Discounting and Scope
- February 18, 2011 [Joint Board Meeting](#)—Discount Rate, Cash Flows, Risk Adjustment, Recognition, Residual or Composite Margin, and Presentation
- February 17, 2011 [Joint Board Meeting](#)—Project Axioms and Assumptions, and Discount Rate
- February 16, 2011 [Joint Board Meeting](#)—Unbundling
- February 9, 2011 [Board Meeting](#)—Changes to U.S. GAAP
- February 3, 2011 [Board Meeting](#)—Discount Rate
- February 2, 2011 [Joint Board Meeting](#)—Acquisition Costs
- January 19, 2011 [Joint Board Meeting](#)—Discount Rate
- January 18, 2011 [Joint Board Meeting](#)—Comment Letter Summaries



What's next?

- ❖ FASB website indicates new exposure draft in 1st half 2012
 - No indication of when final standard is expected to be issued
 - Possibly effective January 2014
 - More likely January 2015



QUESTIONS & ANSWERS



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