



# International Accounting & Solvency Standards

SIFM Update  
2007 Fall Meeting and Seminar

Group of North American Insurance Enterprises

- Discussion Paper: Preliminary Views on Insurance Contracts
  - A.K.A. Phase II
  - About 8 months behind schedule
  - 180 day comment period, due 16 November 2007
  - Two parts, 232 pages total
  - 20 questions presented
  - IASB staff would like to get an exposure draft out by early 2009.

# Discussion Paper: Main Points

- One model for life and non-life
- Uses the current IFRS 4 definition of insurance
- Three building blocks for determining a liability
  - Estimate
  - Discounting
  - Risk Margin
- Expenses upfront
- Everything “market consistent”
- Measurement attribute is “current exit value”
- Assets and recognition according to IAS 39 (etc.)

# Three Building Blocks

- Explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows,
- Current market discount rates that adjust the estimated future cash flows for the time value of money, and
- An explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin)

# Estimate of Cash Flows

- Unbiased
- Market Consistent
- Probability-weighted
- Current
- Contractural
  - Renewal premiums, policyholder participation and mutual dividends.
  - If you want an exit value, why restrict cash flows that the market recognizes?

# Discounting

- Current rate
  - Changes through P&L
- Market rate
- Adjusting for the time value of money
  - Implies risk free rate as opposed to asset return rate
- Non-life disagrees:
  - Risk margin and discounting are implicitly part of UPR
  - Making them explicit adds expense and estimation error and adds no value to the user

# Risk Margin

- Explicit
- “Margin that market participants require for bearing risk”
- Service margin

# Determining the Risk Margin

- “Current Exit Value”
  - The amount a market participant would require to assume the liability in a market transfer
- Calibration
  - Premium on day one is not definitive, only evidence
  - Calibrated to the entity’s expectation of the transfer value
- Gain or loss at issue permitted

# Alternatives

- “Settlement value” (including margins)
  - Tentative direction of GNAIE
  - Improved calibration
    - Defined, accessible experience
- Calibrate day one margin to premium
  - Nearly the same answer
  - Easy
  - Transparent
  - Some equivalence to UPR

# Revenue Recognition...?

- “Should premiums be recognized as revenue or deposits?”
  - Initial question is whether all deposit or all revenue
  - Huh?
- Bifurcation still lurking:
  - Current selection is, if so interdependent that measurement is arbitrary, then no unbundling

## Other issues

- Portfolio
  - Diversification effects
- Own credit risk
- Presentation...

## Tell that to the auditor...

- They argue that they bridge the gap between theoretical and practical...
- But use words like, “generally” and “typically” and “in many cases”

# SEC Proposed Rule to Accept IFRS from Foreign Issuers

- Would end reconciliation to US GAAP
  - 1 January 2009 (?)
  - There is no IFRS standard for insurance liabilities, and the discussion paper isn't likely to make comparability better.
  - What happens to the convergence process?
  - The SEC asks what the international standard-setting process should look like (and GNAIE will definitely answer)
- And its companion, accepting IFS from **US** issuers.

# Solvency II

# Questions?

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