

International Financial Reporting Standards (IFRS) Update

Society of Insurance Financial Management

Hamilton, Bermuda

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IASB/FASB

- 1) Convergence Process – IAS 39/IAS 37
- 2) US Adoption of IFRS

10 Reasons

Why No International Insurance Contracts Standard

- 1) Fair Value
- 2) Single standard for life and property/casualty contracts
- 3) Failure to include all cash flows in the definition of an insurance liability
- 4) Discount Rate for Long-tail Life Contracts
- 5) Margins
- 6) Other Comprehensive Income
- 7) Priority Has Been ElsewhereBoundaries of a Contract
- 8) Discounting Long-Tail Non-Life Contracts
- 9) Cross-Cutting Projects

Risk

Failure to focus on a field testing project creates uncertainty on the impact on insurer balance sheets and profit and loss statements going forward.

Law of unintended consequences.

IAS 37 – Financial Instruments

The Back Door to “Exit Value”

- 1) **Reincarnation of a transfer-based “exit value”** like measurement model. Insurance contracts are not transferred but rather fulfilled with customers over the life of the contract. Service element.
- 2) **IAS 37 is undergoing significant modifications and as a result will probably need to be re-exposed**, adding further delay.
- 3) Believe Boards should adopt the proposed Contract Fulfillment Value model as it has the unanimous endorsement of the FASB as well as most financial statement preparers and users; and it is also consistent with the IASB’s Revenue Recognition project.

Impatience with Progress

- 1) GNAIE is only concerned with the Boards coming to the right answer and not with the expediency of the process. Stated differently, we would be willing to wait until December 2010 for an insurance contracts ED if it contained the right guidance as opposed to rushing out a document to meet a self imposed December 2009 deadline; Field Testing (QIS process)
- 2) The eventual standard will likely be in place for the next 20 to 30 years -- it is critical that it is the right standard as the global insurance industry is much too important to take the chance of expediency driving us to a suboptimal model that will harm the insurance for many years into the future.

Margins

- 1) GNAIE supports composite margins
- 2) De-composition of composite margins into separate risk, service, and residual margins is a purely arbitrary, non-calibratable and non-meaningful
- 3) GNAIE's proposed model is built around composite margins on Day 1; On Day 2 and thereafter the composite margins are run-off consistent with the release of risk (i.e., typically over the contract period)
- 4) GNAIE's model reviews the composite margin on a quarterly basis and modifications are made if changes to underlying assumptions are significant and sustainable
- 5) In contrast to GNAIE's proposal on Day 2 and thereafter, the FASB has suggested that margins would not be re-measured unless the group of contracts became onerous

Deferred Acquisition Costs

- 1) We support the direction of the IASB on this issue -- acquisition costs have value and should not be expensed up-front;
- 2) GNAIE gathered data on insurance company M&A transactions involving over \$100 million of consideration from 2004 through the present and of the 25 completed transactions only 4 were executed at a book multiple of less than 1. Since DAC is included in book value the economic facts suggest that DAC is an asset that purchasers will pay for.