



FINANCIAL SERVICES

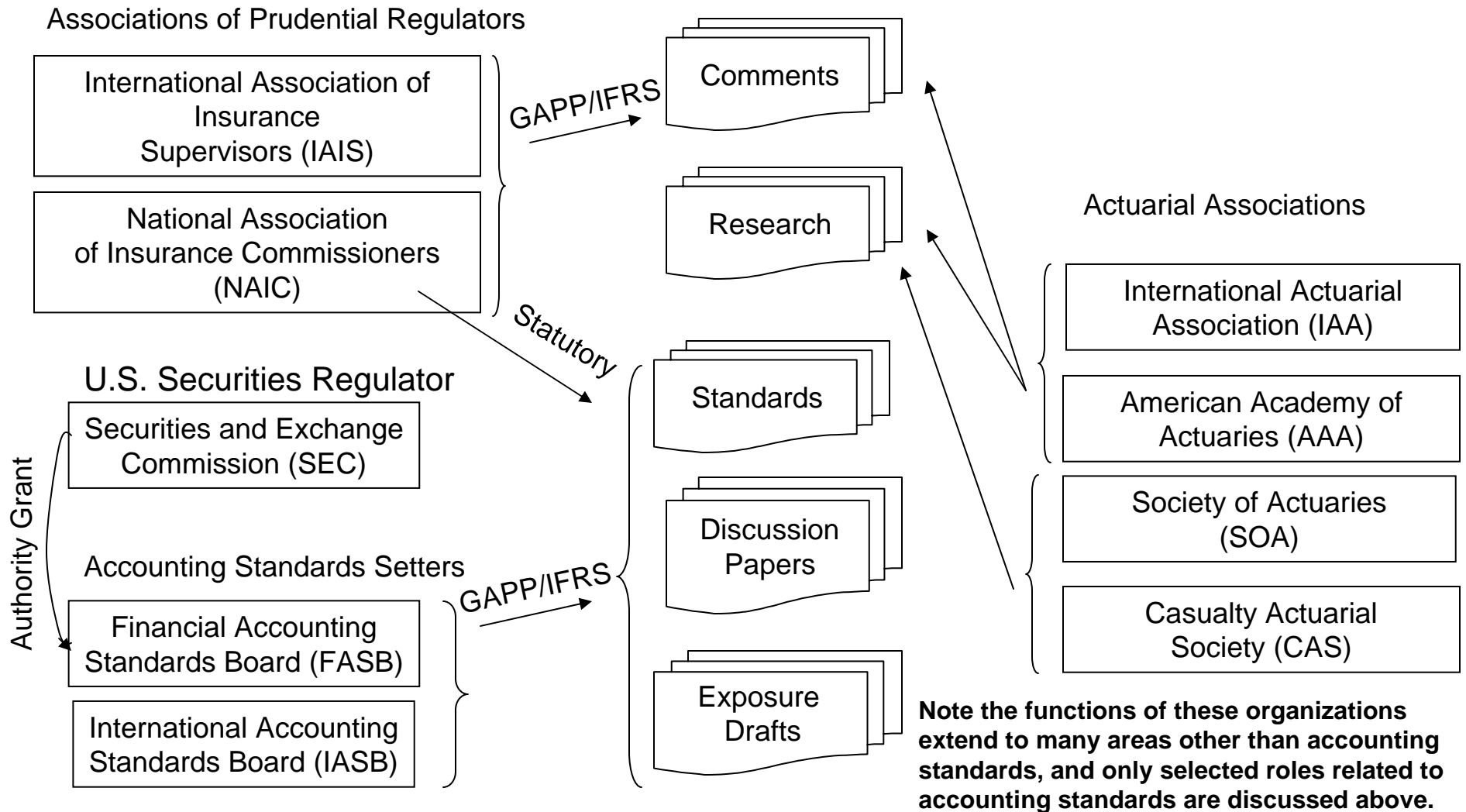
# Update: Impacts of Potential Changes in Accounting Standards on Casualty Actuaries and P&C Insurance Companies

KPMG LLP

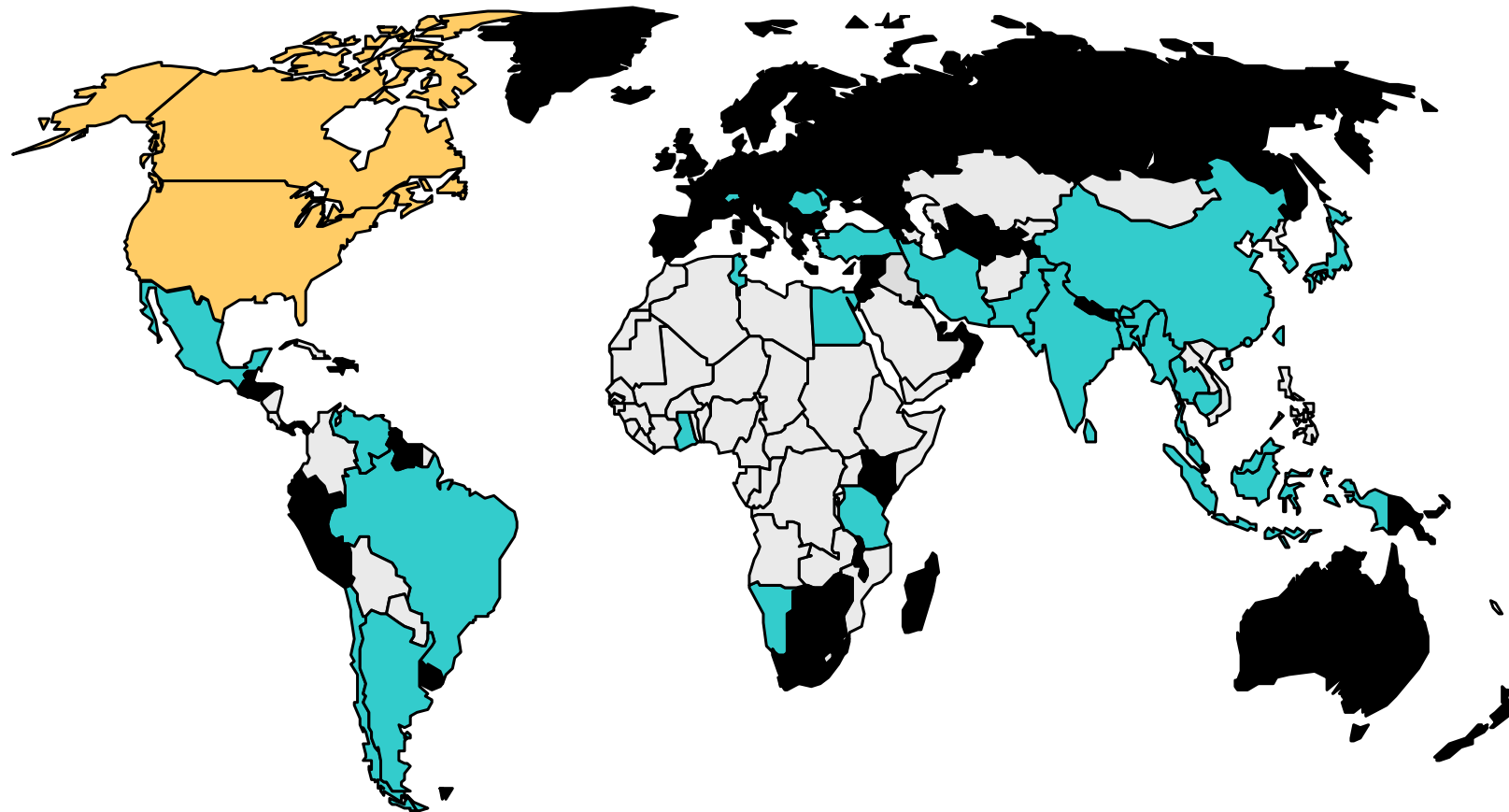
# Topics for Discussion



- Organizations and their Roles
- Other FASB/IASB/IAIS Projects
- Status of Adoption of IFRS Internationally
- Regulatory and Solvency-Related Activities
- Activities of Actuarial Bodies



# Organizations and Selected Activities and Roles Relating to the Development of Accounting Standards



# IFRS Implementation Around the World (2004)

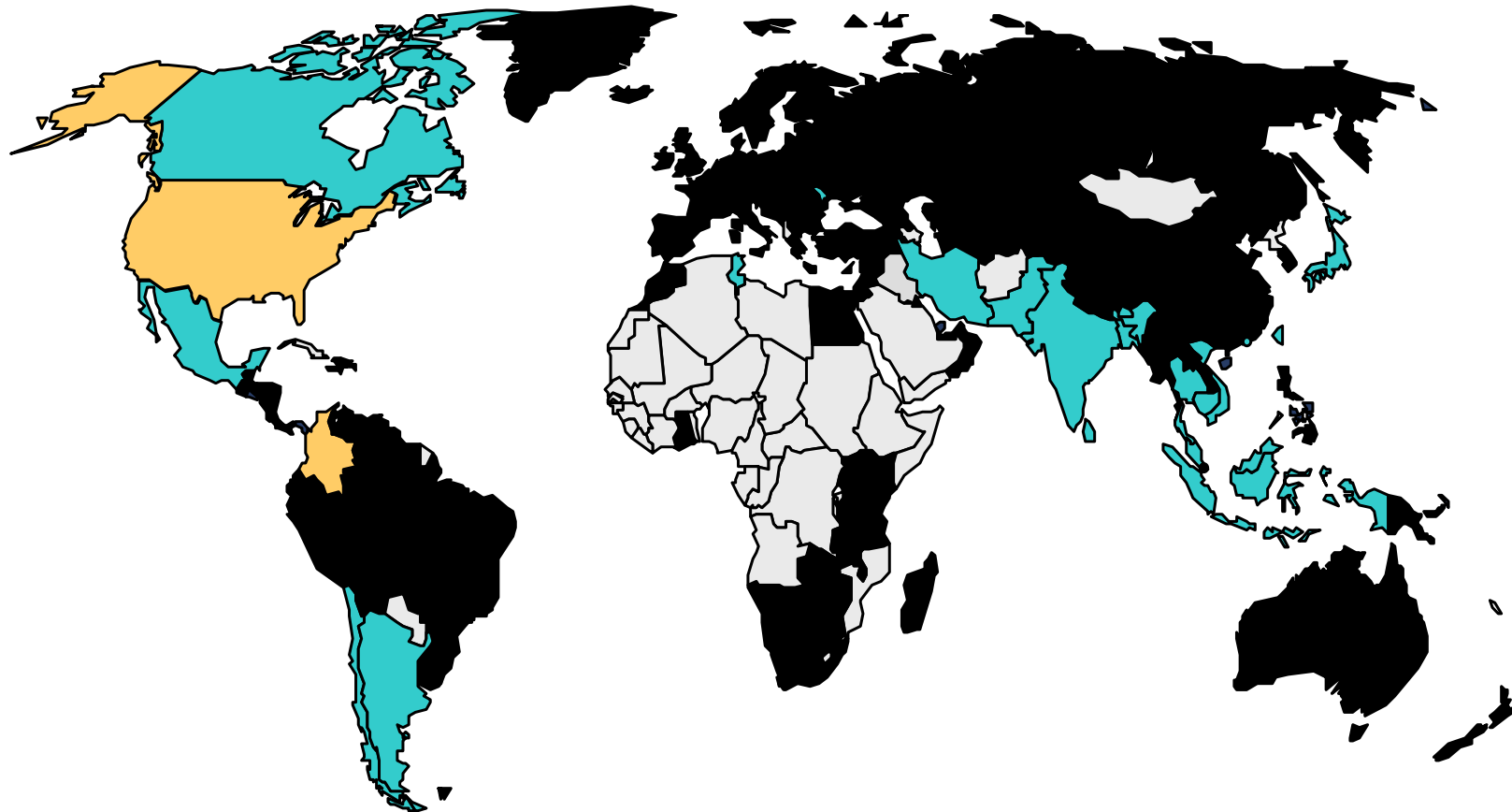



 IFRS or fixed date for implementation  
 Convergence plans



 U.S. GAAP and/or convergence intended  
 No/unknown convergence plans

Source: KPMG Research

# IFRS Implementation Around the World (2007)



 IFRS permitted or required  
 Convergence plans

 U.S. GAAP and/or convergence intended  
 No/unknown convergence plans

Source: KPMG Research



## IASB and FASB Projects (Other than the Insurance Project)

# Other Selected Projects and Representative Issues (1)

## i.e. What's at stake?

- Adoption of general standards applying to all industries may create a disposition that accounting for insurance contracts should be guided under these general accounting standards whenever possible.
  - Why set different standard for companies making up 3% of market capitalization?
- Development of these new standards taken together seems likely to result in more extensive change in accounting than many of us will likely otherwise see in our careers.
- IASB/FASB joint project on Fair Value Measurements
  - Note the measurement objective for insurance contracts is not yet decided by FASB or IASB.
  - Liabilities arising from Insurance contracts differ from many other assets and liabilities in that for insurance liabilities there is no active market to establish a fair value.
  - The Fair Value standard could potentially set precedents that will be applied to insurance contracts, even if insurance contracts were not fully considered in the definitions and guidance this contains.

# Other Selected Projects and Representative Issues (2)

## i.e. What's at stake?

- IASB/FASB joint project on the Conceptual Framework
  - Should some form of “the fair value option” for hedging risk be permitted?
  - To what extent should changes in fair value be presented in the income statement, or other comprehensive income?
- IASB Discussion Paper on Own Credit Risk in Liability Measurement
  - In general, should credit risk of an entity be reflected in liabilities?
- FASB Discussion Paper on the “Roadmap for Convergence”
  - Will implementation of IFRS in the United States widely take place before standards for insurance contracts are in place?
  - Will useful history on a comparable basis be lost in the conversion?
- IASB/FASB joint project on Financial Statement Presentation
  - What will the future shape of segment reporting be?
  - How are discontinued operations defined and treated?
  - How are financing operations and business operations defined, and to what extent separately reported?
  - To what extent are detail reporting and disclosure part of financial statements?

## Observation on country specific IFRS

- Some jurisdictions may have reasons to adopt IFRS with country-specific rules to recognize country-specific circumstances.
  - Possible example, accounting for taxation, or unique social insurances
- Several jurisdictions have already adopted IFRS with a country-specific flavor:
  - Australia, New Zealand, Hong Kong, Philippines, and Singapore, for example
- If country-specific exceptions become widespread and/or reasons for country-specific rules reflect different preferences rather than circumstances, the benefit of a single set of high-quality accounting standards could be compromised.

## Academy, CAS, and IAA Activities Related to Accounting Changes

# Selected American Academy of Actuaries Comment Papers and Highlights of the Academy's Comments (past six months)

- IASB, “Fair Value Measurements” (October 2009)
  - Discussed the basis for measurement, such as exit value or contract fulfillment value
  - Discussed disclosure requirements
- IASB “Financial Instruments: Classification and Measurement” (September 2009)
  - Discussion of asset and liability measurement with a life insurance focus
- Academy initiated White Paper entitled “Discussion on the use of Discount Rates in Accounting Present Value Estimates” (September 2009)
  - Discussed the selection of interest rates to use, especially when discounting in a fair value context
- IASB “Credit Risk in Liability Measurement” (September 2009)
  - The Academy took a position that own credit risk should not be considered in setting insurance liabilities, but that some disclosure might be appropriate
  - The response letter was submitted, but opinion was divided

# Selected American Academy of Actuaries Comment Papers and Highlights of the Academy's Comments (past six months), continued

To FASB on “Preliminary Views on Revenue Recognition in Contracts with Customers”, (June 2009)

- Discussion on applicability of these general views to insurance contracts

Testimony given to the House of Representatives “Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises” (May 2009)

- Educated House members and staff on the role of actuaries in solvency and regulation

To IAIS on “Draft Issues Paper on the Roles of and Relationship Between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports” (May 2009)

- Discussed various aspects of the paper, especially how it might apply in the United States

Academy initiated white paper entitled “Concepts for Successful Regulation of Systemic Risk” (April 2009)

- Discussed potential frameworks for regulating systematic risk

To FASB on “Preliminary Views on Financial Statement Presentation” (April 2009)

- Among other things, discussed impacts of separating financing activities from operating activities, and classification of runoff operations

# Academy Comments on the First Insurance Discussion Paper (2007)

- Comments to the IASB on “Preliminary Views on Insurance Contracts,” highlights included comments regarding:
  - Appropriateness of proposed measurement basis, such as exit value
  - Considerations in implementing the building block approach
  - Consideration of all possible scenarios
  - Cash flows to be considered
  - Development of Actuarial guidance (national contrasted with international)
- Challenge for Academy responses to major changes – Building consensus from our diverse membership
- The 2007 IASB Insurance Contracts Discussion Paper was considered an important enough event that a separate task force was assembled by the Academy.
- A separate task force has been assembled for the 2010 exposure draft on insurance contracts as well.

# Academy Interactions with Accounting and Regulating Bodies

- Financial Accounting Standards Board
  - Fairly frequent interaction with insurance focused staff
  - Presented to the Board on “Risk Margins – Providing Perspective” (Bell, Gutterman, Nyce, June 2009)
- American Institute of Certified Public Accountants
  - The Academy Financial Reporting Committee meets annually to discuss issues of mutual interest
- Securities and Exchange Commission
  - Academy has participated in industry roundtables regarding insurance industry issues
- Correspondence with Treasury recently regarding the Insurance Information Act of 2008
- Frequent interactions with NAIC on capital and solvency issues, and actuarial analysis of Risk-Based Capital
- COPLFER notes regarding actuaries’ support of regulatory requirements such as statutory opinions and risk transfer

## Regulatory Impacts

# Impending NAIC Changes – 2009 Highlights that could impact Actuaries

- Many varied detailed changes to the 2009 Statutory blanks
  - Add investment definition and disclosure, and additional information regarding derivative investments
  - Add instructions on treatment of historical changes on the five-year history exhibit related to restatements for acquisitions
  - Modify definition and instructions on reporting premiums by line and state
    - Add Annual Statement Line 17.3 – Excess Workers' Compensation line to the Underwriting and Investments Exhibits.
  - Add a requirement to inform the Commissioner about the initial appointment of an Appointed Actuary and provide some additional information.
  - Numerous interrogatories added

Source: NAIC Web site - [http://www.naic.org/documents/committees\\_e\\_app\\_blanks\\_adopted\\_proposals.pdf](http://www.naic.org/documents/committees_e_app_blanks_adopted_proposals.pdf)

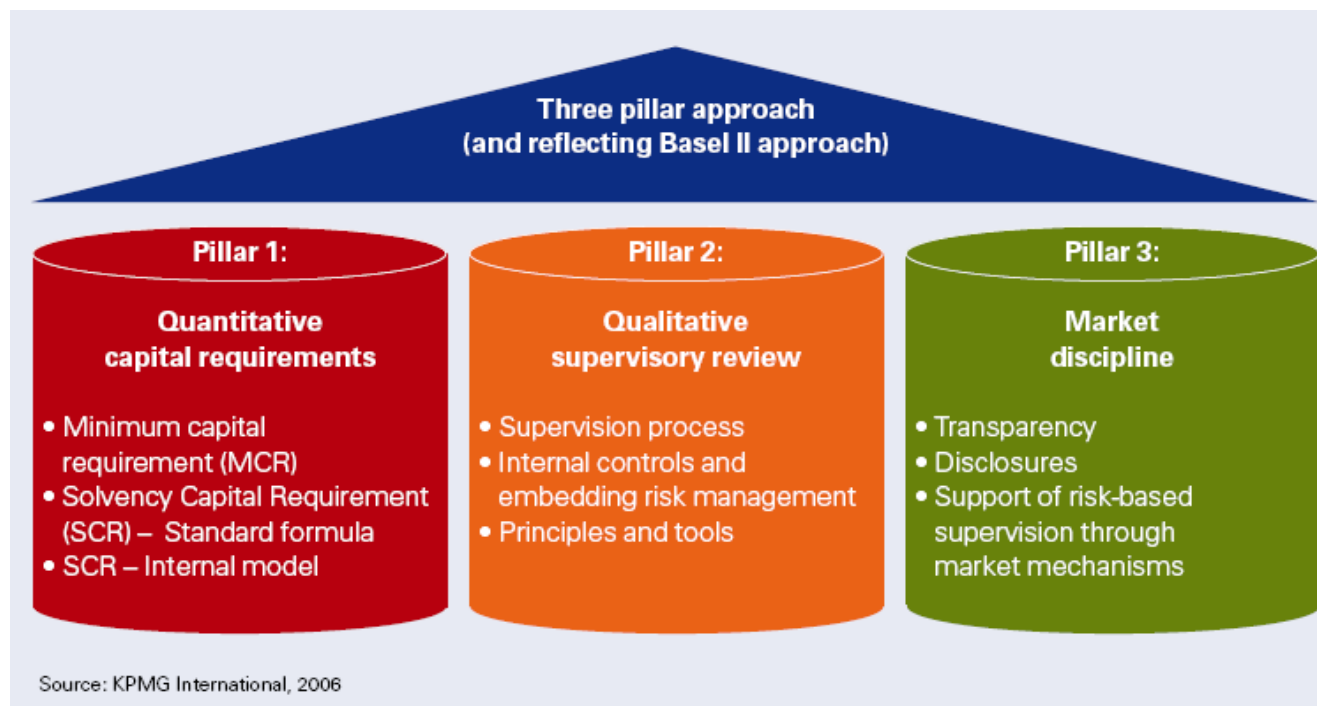


# What are the main features of Solvency II?

The Solvency II project initiation document MARKT/2095/99 expressed the intention that a new solvency regime should “where possible, be based on common accounting policies to produce expenditure savings and avoid the duplication (and even multiplication) of financial reporting systems.”

- Expressed in European Commission report MARKT/2514/02–EN Orig 2002
- Same report notes the U.S. system of Statutory Accounting is “interesting”

The “Three Pillar” approach



# Impacts on NAIC of IFRS and IAIS Activities and Solvency II

- NAIC already reviews and adopts/revises/rejects significant changes to U.S. GAAP in support of Statutory Accounting Principals.
  - As U.S. GAAP converges with IFRS, this process will remain in place.
  - Therefore, it does not appear U.S. SAP will converge with IFRS.
- NAIC also reviews and comments on significant IASB papers and drafts.
- NAIC critically reviews and provides input and drafting to the IAIS Insurance Contracts Subcommittee, and on other IAIS papers.
- NAIC analyzes other financial supervisory modernization initiatives.
  - Note, the initiative to incorporate catastrophe modeling in RBC seems consistent with Solvency II approaches.

# Discussion of Academy of CAS-Sponsored Research

A project exploring alternate measurement approaches was conducted for life insurance in conjunction with the Insurance Contracts discussion paper (2007).

The CAS sponsored research on Fair Value measurement of insurance liabilities (2004).

Many express the sentiment that actuarial research on alternate measurement approaches may be especially useful in this process.

- Accordingly, the CAS Committee on Valuation, Finance, and Investments, has sponsored a current research project on risk margins.
- Further RFPs are currently pending for somewhat related work in Liability Pricing Models, Putting Mark to Market on a Going Concern Basis, Risk Premium Project Update, and Creation of Public Loss Simulation Models.

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