

CAS Task Force on Fair Value Liabilities

White Paper on Fair Valuing Property/Casualty Insurance Liabilities

Introduction

1) Goal of the paper, and who its authors are.

The following is a discussion of fair value accounting as applied to property/casualty (p/c) insurance liabilities. It is the work product of the Casualty Actuarial Society's Task Force on Fair Value Liabilities, a task force created specifically to address fair value insurance issues raised by several recent accounting proposals (discussed in the Background section below). The issue of possible reporting of insurance liabilities at fair value existed prior to these recent accounting proposals. Hence, this paper is also meant to be a general resource for p/c insurance liability fair value discussions in general.

This paper is not meant to advocate any particular position, but is instead meant to be a "white paper," an objective discussion of the actuarial issues associated with fair value accounting.

2) Scope

The scope of this paper is limited to the issue of fair valuing of p/c insurance liabilities (and related insurance assets), with particular emphasis on insurance accounting in the United States. The analysis includes discussion of estimation issues and their application to accounting. It does not address fair valuing of life or health insurance liabilities, although we recognize the benefits of a consistent approach, where possible, across all insurance liabilities.

The scope is meant to include all material property/casualty insurance liabilities, regardless of the type of entity reporting them in their accounting statements. This would include insurance liabilities held by self-insureds, captives, reinsurers, etc. It would also include unearned premium liabilities, accrued retrospective premium assets/liabilities, material contingent commission liabilities and the like. We have not addressed all possible insurer liabilities, but we have addressed those we believe to be material at an insurance industry level.

3) Format of the paper

The paper is organized into the following sections

- A. **Background**, including a definition and history of fair value in general.
- B. **Fair Value in the Insurance Context**
- C. **Alternatives to Fair Value Accounting** for p/c insurance liabilities.
- D. **Methods of Estimating Risk Adjustments** required in the fair valuing of insurance liabilities.
- E. **Accounting Presentation Issues**, including alternative income statement or balance sheet formats in a "fair value" world.
- F. **Implementation Issues** surrounding the fair valuing of p/c insurance liabilities
- G. **Accounting Concepts**, or how well fair value accounting and the issues discussed in the earlier sections would be viewed in the context of general accounting concepts (such as reliability, relevance and representational faithfulness).
- H. **Credit Standing and Fair Value Liabilities**, a discussion of issues related to the reflection of credit standing in determining the fair value of liabilities.

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- I. **Professional Readiness**
- J. **Summary and Observations**
- K. **Technical Appendices**

These sections are meant to be conceptual discussions, with any discussion of detailed implementation procedures left to the technical appendices.