

CAS Task Force on Fair Value Liabilities

White Paper on Fair Valuing Property/Casualty Insurance Liabilities

Section I – Professional Readiness

Previous sections of this white paper have discussed what fair valuing means, what methods can be used to accomplish it, and what theoretical and practical issues must be dealt with in order to implement the fair valuing of insurance liabilities. This section discusses what the actuarial profession needs to do to prepare for its role in this process. Evaluating what casualty actuaries need to do to prepare for fair valuing insurance liabilities requires addressing the following four issues:

- Do actuaries currently have a theoretical understanding of fair value concepts adequate to estimate liabilities under a fair value standard?
- Are models currently available that can be used by actuaries to estimate fair value liabilities?
- Are actuaries prepared to implement these models and make these estimates in practice?
- What steps can the profession take to aid individual actuaries in implementing effective processes for fair valuation of insurance liabilities for their companies or their clients?

Note that professional readiness for this task should be evaluated relative to a hypothetical implementation date sometime in the future. Fair valuing insurance liabilities is not currently required of insurers in the United States, and we assume that initiation of such a requirement would be accompanied by a reasonable implementation period.

Adequate theoretical understanding and appropriate models

The analysis done by the task force and presented in the preceding sections demonstrates that actuaries have the theoretical understanding needed to implement fair valuing of insurance liabilities. We have identified a number of models that are available and appropriate for actuaries to use in estimating fair value liabilities. No issues have been identified that are not susceptible of actuarial estimation.

Ability to make estimates in practice

As noted above, fair valuing insurance liabilities is not a current requirement for most insurers in the United States. Therefore, actuaries generally have not established the systems and procedures that would be required to efficiently support fair valuation of liabilities for the financial reporting process. However, casualty actuaries performing insurance pricing and corporate financial functions have used many of the fair value models that have been identified in prior sections of this white paper, and the task force believes that this precedent demonstrates that actuaries can estimate fair value liabilities

CAS Task Force on Fair Value Liabilities

White Paper on Fair Valuing Property/Casualty Insurance Liabilities

Section I – Professional Readiness

in practice.

The task force has identified a number of issues concerning fair value that require clarification prior to implementation. The task force presumes that many of these issues will be clarified later in the accounting standards development process. The task force also presumes that a reasonable period will be provided for implementation of any new accounting standard requiring fair valuing insurance liabilities. Given those assumptions, the task force believes that actuaries will be able to develop and use models that provide efficient and effective estimates of the fair value of insurance liabilities in accordance with those new accounting standards.

Steps the profession can take

The task force believes that there are a number of steps that can and should be taken by the actuarial profession to aid individual practitioners if fair value accounting for insurance liabilities is adopted for U.S. GAAP or statutory accounting. Depending on the course of future accounting standards developments, the same may be true if the IASC adopts fair value accounting for insurance liabilities.

1. You hold in your hands the first step, a white paper that discusses fair valuation of insurance liabilities for general or property/casualty insurers. The task force hopes this document will aid accounting standards setters in developing higher quality standards for insurers. The task force also hopes this document will be a starting point for casualty actuaries seeking both to better understand the issues underlying fair value accounting and to plan what methods to use in fair valuing insurer liabilities for their own companies or clients.
2. The actuarial profession should continue its active participation in the ongoing discussions of fair value accounting for insurers. As is evident from the prior sections of this white paper, fair value accounting is a complex issue, and actuaries should continue to provide active assistance to accounting standards setters in order to insure that the adopted standards are of high quality and are practical to implement.
3. The profession should seize any opportunities to broaden the numbers of actuaries engaged in the discussion of fair value accounting. CAS meetings and the Casualty Loss Reserve Seminar (CLRS) are the most obvious opportunities to discuss these concepts with more casualty actuaries. Publication of this white paper in the *CAS Forum*, on the CAS web site, and in other appropriate public forums should also be encouraged.
4. Once an accounting standard setting organization adopts fair valuing for insurance liabilities, a practice note designed to highlight the issues that practicing actuaries may wish to consider in implementing that standard should be produced as soon as

CAS Task Force on Fair Value Liabilities
White Paper on Fair Valuing Property/Casualty Insurance Liabilities

Section I – Professional Readiness

possible. Practice notes are designed to provide helpful information quickly, so they do not go through the due process required of a new Actuarial Standard of Practice (ASOP). Accordingly, neither are they authoritative for actuaries. In addition to being published, any such practice note should be presented at the CLRS and at CAS meetings.

5. Finally, the task force believes that issues will arise during implementation that have not been anticipated in advance. Initially these should be handled through updates to the practice note. Once some experience has been accumulated, there may be need for consideration of a new or revised ASOP. The task force has not identified any need for a new or revised ASOP at this time and believes it is better to defer developing any such standard until actual practice under a fair value accounting standard has had a chance to develop. Premature development of an ASOP may mean that unanticipated but important issues are not addressed in the ASOP. Also, an ASOP developed too soon may tend to impede the development of good practice by requiring more justification for estimation methods not yet contemplated during the drafting of the ASOP.