

**27th International  
Congress of Actuaries**



# International Regulation of General Insurance Companies

IAA Sub Committee on International  
Accounting Standards

David Congram

Session 54

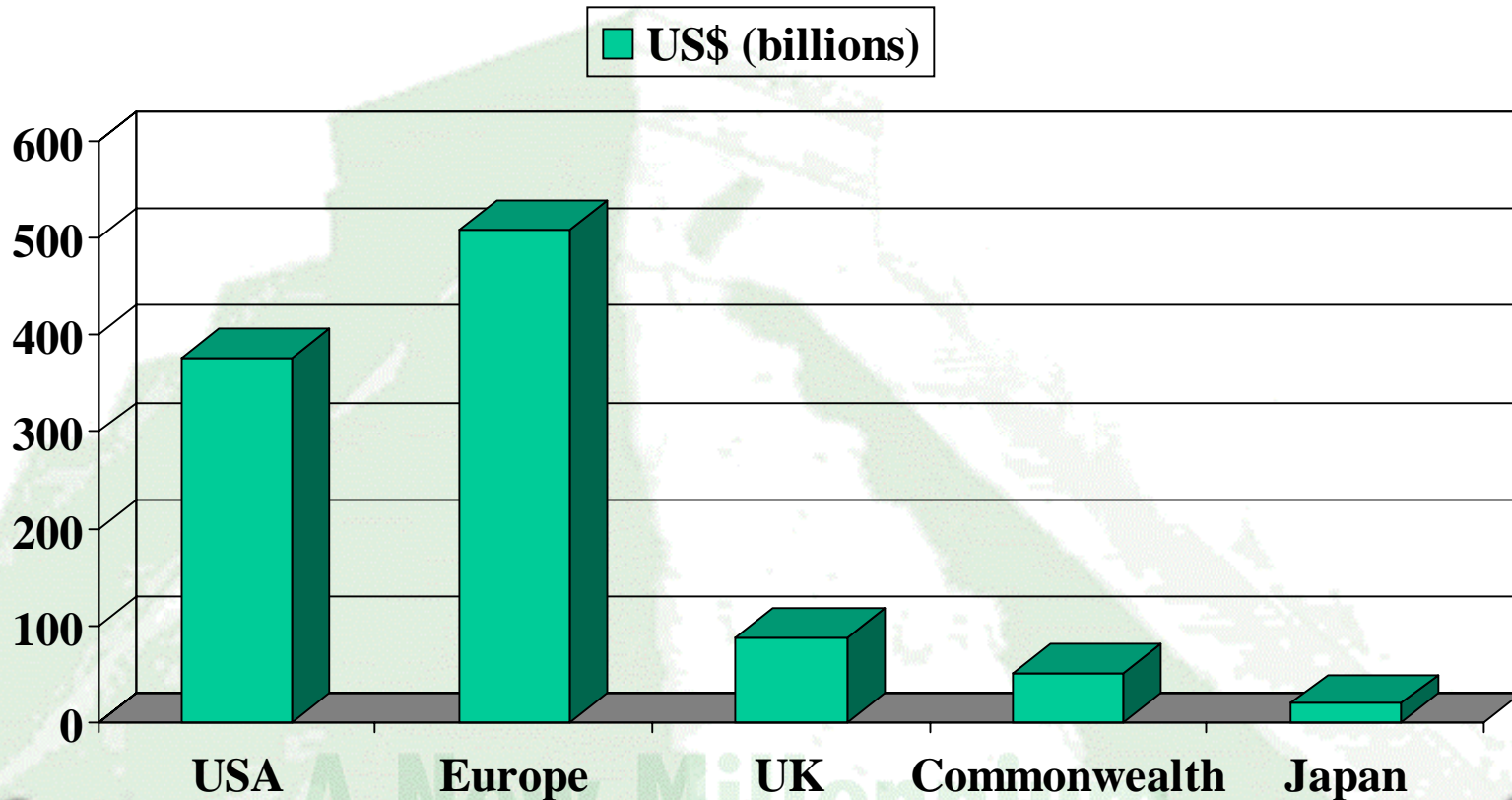
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# Driving influences

- International Organisation of Security Commissions (IOSCO)
- International Association of Insurance Supervisors (IAIS)
- Joint Forum
- European Union
- International Federation of Accountants (IFAC)

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# Market Cap Top 50 Insurers



Source UBS Warburg Global Equity Research: Insurance July 2001

# Driving influences

International Accounting Standards Board  
(IASB) to develop a new International  
Financial Reporting Standard (IFRS)

IAA's Committee on International  
Accounting Standards

IAA's Sub Committee on Actuarial Standards

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DSoP

IAS 39

Need to connect insurance contract accounting with financial instrument accounting

DSoP applies to insurance contracts rather than to enterprises.

Definition of insurance contract



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# Product Classification Examples

## Included in DSOP

- Property
- Product liability
- Product warranties
- Travel
- Disability

## Excluded from DSOP

- Financial Guarantees
- Product warranties issued by manufacturer
- Self insurance products
- Derivatives

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# Measurement

DSoP recommends 'entity specific' values (ESV) rather than 'fair' values, but ESV definition not yet clear or accepted.

The best estimates will be estimates that are appropriate to the circumstances of a company that intends to hold the obligation rather than appropriate to a company that intends to dispose of the obligations.

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# DSoP

- Prospective method of valuation
- Use of most current information such as pricing rather than historical information.
- Credible data: high degree of rigor
- Actual assets that back the insurance contract are deemed irrelevant unless the benefits are directly linked with the assets.
- Credible information about the future may require the use of probability distributions rather than point estimates.

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# Areas of potential conflict

- Discounting of claims reserves required
- Equalisation reserves prohibited
- Catastrophe reserves not allowed, but emerging discussion following September 11
- Credit standing (lower rating lower liabilities?)

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# Actuarial Standards of Practice

Work in progress:

- drafting group (8) to write papers on some 45 issues
- define what is in the DSoP
- define what is meaningful
- discuss alternative approaches
- group will consider standards for non insurance contracts issued by insurers

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# Risk Based Capital Issue Paper

- Disclosure in financial notes of a new international capital ratio?
- Disclosure of the country capital ratio?
- Consistency of risk assessment under new international accounting requirements and international capital requirements?

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# IAA activities

- New actuarial standards setting sub-committee is underway
- IASB insurance accounting committee preparing DSoP response
- Both standards and accounting discussion progress available from IAA web site
- We need your active participation.

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# IAA Web site

- [www.actuaries.org](http://www.actuaries.org)
- Members
- Log in
- Council and Committees
- Insurance Accounting
- Sub Committee
- Discussion group

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**Thank you very much**

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