

IASC Insurance Accounting

Mo Chambers, FSA, FCIA, MAAA
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Topics to be covered

- Introduction to IASC Issues Paper
- Scope of Issues Paper
- Fair value issues

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Introduction to IASC Issues Paper

- IOSCO Challenge 1994
- IASC formed Steering Committee on Insurance in 1997 since,
 - ✓ Current diversity of accounting practice
 - ✓ No current IA Standards for insurance
- December 1999 release of Issues Paper on insurance for comment - first step
- Comment deadline May 31, 2000

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Introduction to IASC Issues Paper

- Next steps,
 - ✓ Review comments - Sept. 2000
 - ✓ Draft Statement of Principles
 - ✓ Final Statement of Principles
 - ✓ IASC Board Approval

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Introduction to IASC Issues Paper

- Importance of Issues Paper
 - ✓ Potential for global standard
 - ✓ Internationalization of insurance
 - ✓ Financial sector convergence
 - ✓ Opportunity for actuarial profession to make key contribution

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Introduction to IASC Issues Paper

- Related activity
 - ✓ IAIS Solvency Committee
 - ✓ BIS activity
 - ✓ IAA submission
 - ✓ Joint submissions from some countries

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Scope of Issues Paper

- 20 “Basic Issues” are grouped in categories,
 - ✓ Scope
 - ✓ Project Timetable
 - ✓ Recognition & Measurement
 - ✓ Participating Contracts
 - ✓ Reinsurance
 - ✓ Fair Value Issues

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Scope of Issues Paper

- 20 “Basic Issues” are grouped in categories (cont’d),
 - ✓ Deferred Tax
 - ✓ Reporting Enterprise, Consolidation and Business Combinations
 - ✓ Interim Financial Reports
 - ✓ Presentation and disclosure

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Scope

- Basic Issue #1 - *Should the project cover all aspects of accounting by insurers or mainly on insurance contracts of all enterprises.*
 - ✓ IASC believes focus s.b.on insurance contracts
 - ✓ IAA draft response concurs, but notes measurement of liab. value can't be done alone w/o consistent treatment of the assets used to fund the insurance obligations

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Scope

- Related sub-issues to Basic Issue #1
 - ✓ Appropriate disclosure and presentation
 - ✓ Insurance contracts vs financial instruments
 - ✓ Distinguishing features of an insurance contract
 - ✓ Definition of an insurance contract
 - ✓ Amount of uncertainty to qualify as insurance
 - ✓ Unbundling of components of insurance contract
 - ✓ Distinction between general and life insurance

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Scope

- **Basic Issue #2 - *Should project deal with other financial instruments held by insurers***
 - ✓ IASC believes project should deal only with insurance contract FI's
 - ✓ IAA agrees to focus on insurance contracts; need for similar treatment for backing assets; need for consistency with other similar FI's

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Project Timetable

- **Basic Issue #3 - *Should IASC issue provisional guidance on insurance accounting or disclosure***
 - ✓ IASC believes not, since project is a complex one with diversity of country practices and is closely intertwined with work of JWG on FI's
 - ✓ IAA agrees and urges the need for sufficient run-in time for implementation by companies

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Fair Value Issues

- Basic Issue #11 - *What issues are raised by the use of fair value in the measurement of insurance obligations*
- Sub-issue: *Are insurance contracts FI's*
 - ✓ IASC says yes
 - ✓ IAA concurs, comments on need for similar treatment of same risks issued by another type of company, need to look at entire IC

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Fair Value Issues

- Sub-issue: *Should insurance contracts be included at FV*
 - ✓ IASC says if other enterprises use FV for FI's then insurers should also; FV's of financial assets and liabilities s.b. consistent
 - ✓ IAA concurs, consistency is fundamental; encourages IASC principles for FV not specific methods

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Fair Value Issues

- Sub-issue: *What should be the general approach to applying FV to IC's*
 - ✓ IASC says use PV of cash flows using market or entity (if no market info) assumptions
 - ✓ IAA concurs
 - ✓ Should FV use return on insurer's assets

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Fair Value Issues

- Sub-issue: *Should FV use return on insurer's assets*
 - ✓ IASC says no
 - ✓ IAA believes risk adjusted cash flows should be discounted at the asset yield of a replicating asset portfolio; mismatch risk between replicating portfolio and actual liab. CF's to be in liab. amount

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Fair Value Issues

- Sub-issue: *Should FV of IC's include provision for risk inherent in those contracts*
 - ✓ IASC concurs; recognizes difficulty in calculation
 - ✓ IAA believes inclusion of risk margin in FV is essential; recognizes need for work to quantify the various risks

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Fair Value Issues

- Sub-issue: *Does a FV system for IC's include deferred acquisition costs*
 - ✓ IASC believes FV s.b. prospective; hence no place for DAC
 - ✓ IAA concurs

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Fair Value Issues

- Sub-issue: *Is the embedded value method an appropriate approach for FV of insurance assets and liabilities*
 - ✓ IASC believes EV's should not be recognized as assets to correct for inappropriate liab. Values; EV's can be used for disclosure
 - ✓ IAA concurs

**Presentation
By**

Morris W. Chambers, FCIA, FSA, MAAA, HonFIA

To

**IACA 2000 Conference
Hershey, PA June 7, 2000**

Good morning. It's a great pleasure for me to be with you for your conference this week. Attending an IACA conference is not an opportunity that I really expected to have because, like Alice Gannon, my career has been spent entirely as an employee of an insurance company.

Aside from the need at some point actually to address the topic of this session, "International Actuarial Stuff", I do have two other responsibilities this morning. The first is to express apologies from Catherine Prime, President of the IAA, that a late change in demands upon her time prevented her from being a participant in the conference. The second is to extend, on her behalf as well as my own, our welcome to your organization in its new status as a section of the IAA. I have every expectation that the new relationship will be one of mutual benefit to both associations. I must confess that prior to the opening session on Monday, I had not been aware that the genesis of IACA had been so closely tied to the IAA and its congresses. So, my sense of actuarial history has been expanded.

By the way, Actuarial history, or at least my perspective of some recent actuarial history will be a major element of my remarks today. I've often wondered why it is that as I age, my interest in history deepens. I think I've solved it. When I was young and could have learned from history, it was all before my time and, therefore, not pertinent. Nowadays, what has become history was once, for me, current events. That can generate a profound sense of relevance, even if one's own involvement was peripheral and passive.

I must express my gratitude to the conference planners, because "International Actuarial Topics" is not a particularly constraining subject. In fact, as I reflect upon it, much of what has been happening in and around our profession in the past 15 years or so can be considered international and some of it can even be described, in the traditional context, as actuarial.

Prompted by some of the reference made on Monday morning, it struck me that much of what has happened in the actuarial world in the last decade and a half has been tied to the issue of professionalism. This culminated in the organizational restructuring of the IAA at the Birmingham Congress in 1998. So that, I think is my theme --- Professionalism and the Actuarial Community. I caution that the views I express are very much my own and reflect my own, particularly Canadian, perspective of history.

During the 1980s, here in North America, there was a concern that many actuaries and, in particular, a few really masochistic ones like Fred Kilbourne, might inadvertently breach the code of conduct of one organization while striving to conform to the code of another. The result of that concern was the adoption, around 1992, of the common code.

In the midst of this exercise, the centenary of the profession in North America was celebrated in Washington, DC in 1989. The keynote speaker at the

Centenary, the Honourable Willard Estey, addressed the nature of professionalism. His primary message was that, in order to elevate an occupation above the level of a trade or guild to the status of profession, the necessary ingredient was a commitment to place duty to the public above the interest of the profession and its members. That message hit home and the North American common code, adopted in 1992 did, indeed, incorporate that priority.

Meanwhile, across the Atlantic, the international trade developments in Europe had led to the establishment of the Groupe Consultatif. The Groupe proceeded to develop its own common code of conduct and that, I venture to say, was largely patterned on the North American model.

Against these backdrops, we set the 24th International Congress of Actuaries at Montréal in June, 1992. As President of the host organization, the Canadian Institute of Actuaries, Paul McCrossan proposed a pre-Congress gathering of Presidents and Presidents-elect of those actuarial organizations that appeared to be founded on a similar examination-oriented education base. The purpose was to discuss matters of mutual interest and concern, assuming there were some.

In the event, the one-day meeting was a resounding success and it closed with a resolve to meet again one year hence, even in the absence of a congress. Our British colleagues did express the need to broaden the base of involvement in deference to their relationship with European organizations. They did not want the meetings to be interpreted as some nefarious anglophone plot.

In fact, the next meeting took place within nine months and the McCrossan Group, as it was named, continued to meet thrice yearly until the occasion of the Centenary Congress in Brussels in 1995. On that occasion, the efforts of the McCrossan Group were realized in the formation of the International Forum of Actuarial Associations as a section of the IAA. The ultimate goal of the IFAA was the creation of a global actuarial profession, using 'profession' in the strictest sense of the word embodying the essential elements of professionalism.

At the Congress in Birmingham in 1998, the IAA completely restructured itself from an organization of individuals into an organization of professional associations; that is, it took on the structure of the IFAA, which itself disappeared. By that action, I submit, we have created the first truly global profession organized formally with relatively high requirements on an international basis. That is a bold statement. How can I presume to make it?

To be a full member of the IAA, an actuarial association must have in place,

- 1) a code of conduct at least as strong as that of the Groupe Consultatif,
- 2) a discipline process that meets certain criteria of fairness and effectiveness,
- 3) where standards of practice are promulgated, a due process for adoption that assures a voice for contrary views,

4) by 2005, a commitment to a minimum level of qualifying education guidelines.

As of last month there are 43 full member associations in the IAA. I would hazard that these encompass at least 98% of the qualified actuaries in the world. I'm reasonably sure that no other profession can claim to be organized internationally at that level.

That is fantastic accomplishment in less than a decade and it lays the groundwork for a bright future, ---- but it does not guarantee that future. I believe, however, that with that foundation and with our commitment to serve the public and to add value for the users of our work, the twenty-first century can be one of growth, recognition, and even glory, for our profession.