



10th Global Conference of Actuaries

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Developments in International Financial Reporting for Insurance Companies

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Agenda

- International Financial Reporting
- IAA Role
- Insurance
- IAA response to the IASB
 - Discussion Paper – Preliminary views on Insurance Contracts
- IAA – Future Activity



International Financial Reporting - Scope

- Financial Statements for Publicly Accountable Enterprises
- Regulatory filing for Financial Institutions
- Pensions



Who are the International Players?

- International Accounting Standards Board (IASB)
- International Actuarial Association (IAA)
- International Organization of Securities Commissions (IOSCO)
- International Association of Insurance Supervisors (IAIS)
- National Standard Setters



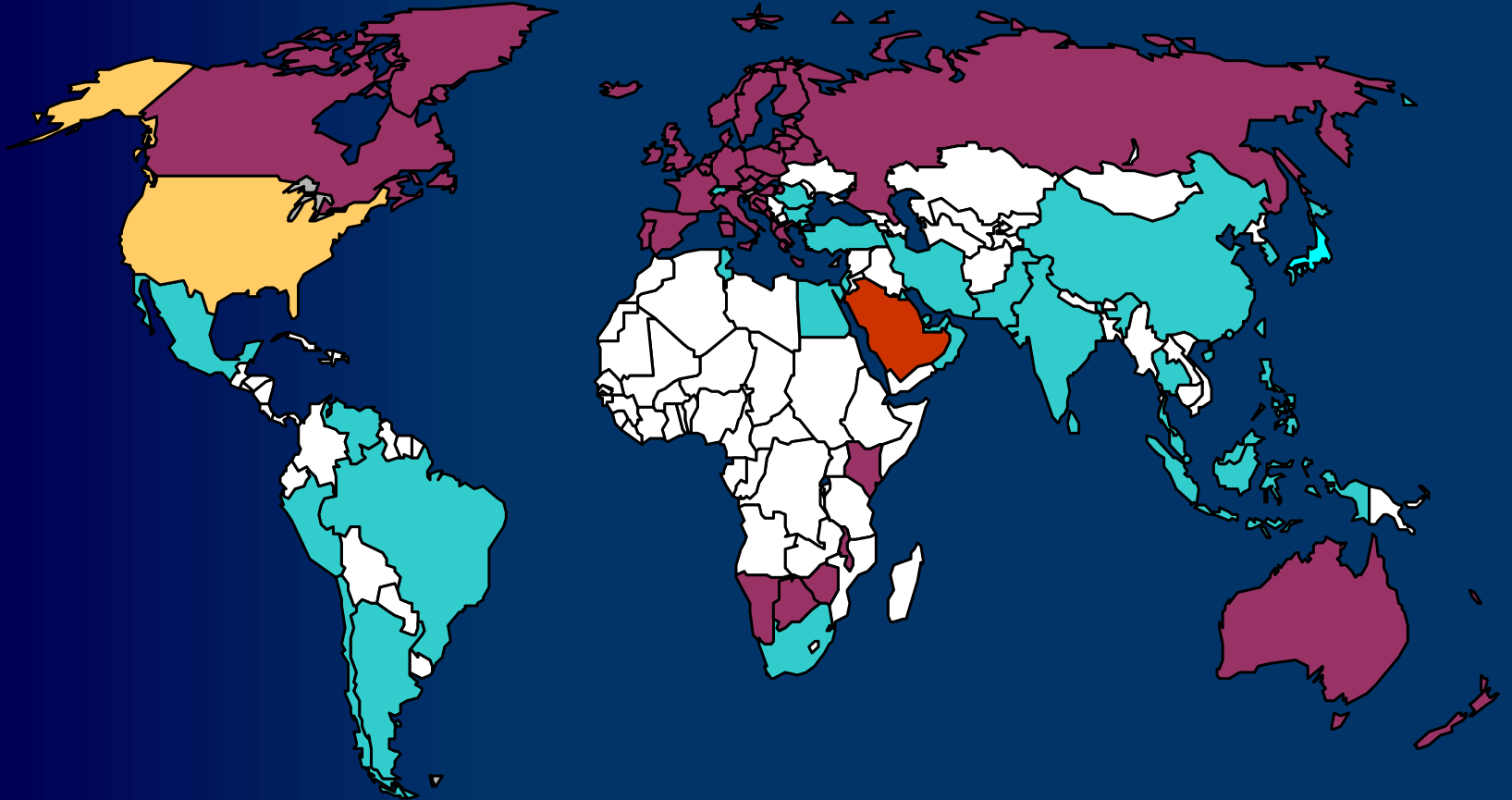
Why International Financial Reporting Standards?

- International Settlements demands trust in the strength of different national financial institutions
- IFRS is becoming the basis of GAAP in most major jurisdictions outside North America
- IFRS are principles-based standards, as opposed to rules-based standards (e.g. US GAAP)
- Many companies, including banks and insurers, already report upstream on this basis



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IFRS - Moving Towards a Global Standard



-  Fixed deadlines for IFRS implementation
-  US-GAAP - Convergence intended
-  Convergence plans
-  No intent to converge with IFRS



International Convergence Project – US SEC

SEC Chairman Christopher Cox – July 25, 2007

“Having a set of globally accepted accounting standards is critical to the rapidly accelerating global integration of the world capital markets”

- Concept Release for public comment
- Allowing US Issuers prepare on IFRS for SEC purposes

This follows the June 2007 proposal

- Proposal to eliminate the requirement on foreign private issuers using IFRS to reconcile to US GAAP



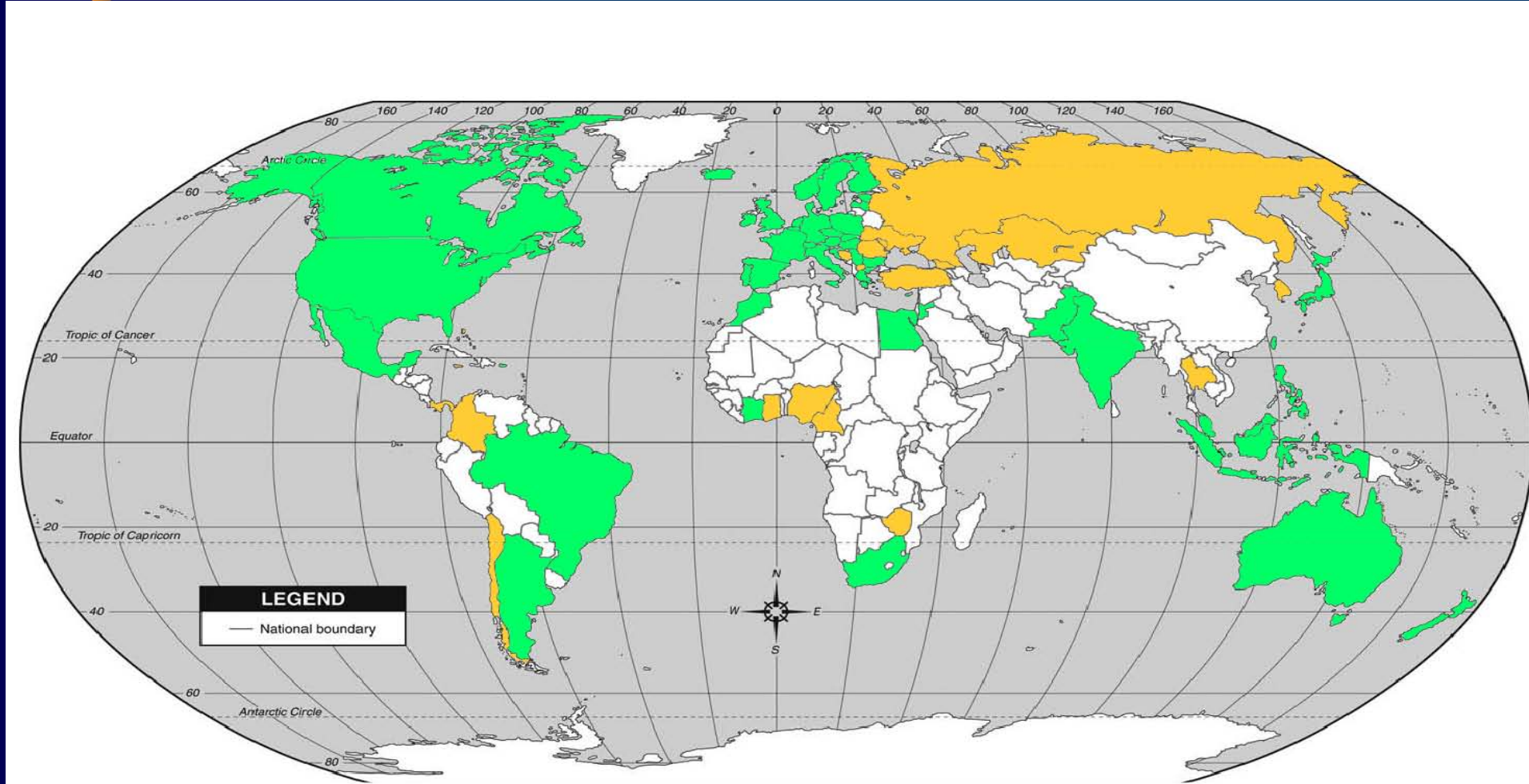
What is the role of the IAA?

IAA - Objectives

- Develop the role and reputation of the profession
- Promote high standards of professionalism to serve public interest
- Advance the body of knowledge of actuarial science
- Further the personal professional development of actuaries
- Promote mutual esteem and respect amongst actuaries
- Provide discussion forum for actuaries and associations
- Represent the global profession with supranational bodies



IAA Moving toward global representation

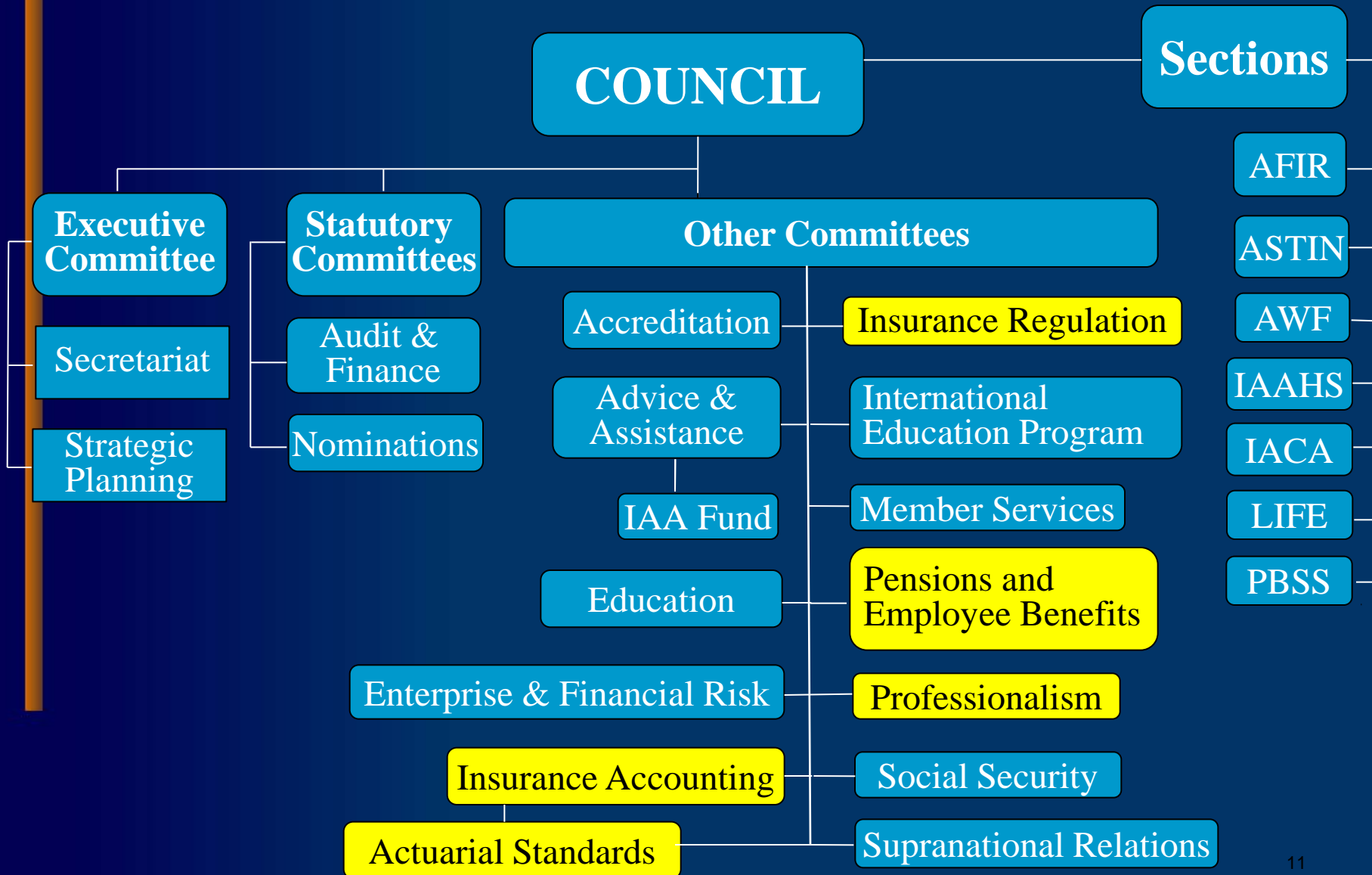


Green – Full IAA Member Associations

Yellow Associate Members



International Actuarial Association





IAA International Actuarial Standards of Practice

- Class 1 Compulsory
- Class 2 Voluntary
- Class 3 Recommended Practice
- Class 4 Practice Guidelines:
 - educational in nature
 - not binding
 - Usually start as class 4, can be upgraded later to class 1-3.

Due Process is under review



The challenge of global standards

Uniform international standards



National protection of citizens

Subsidiarity

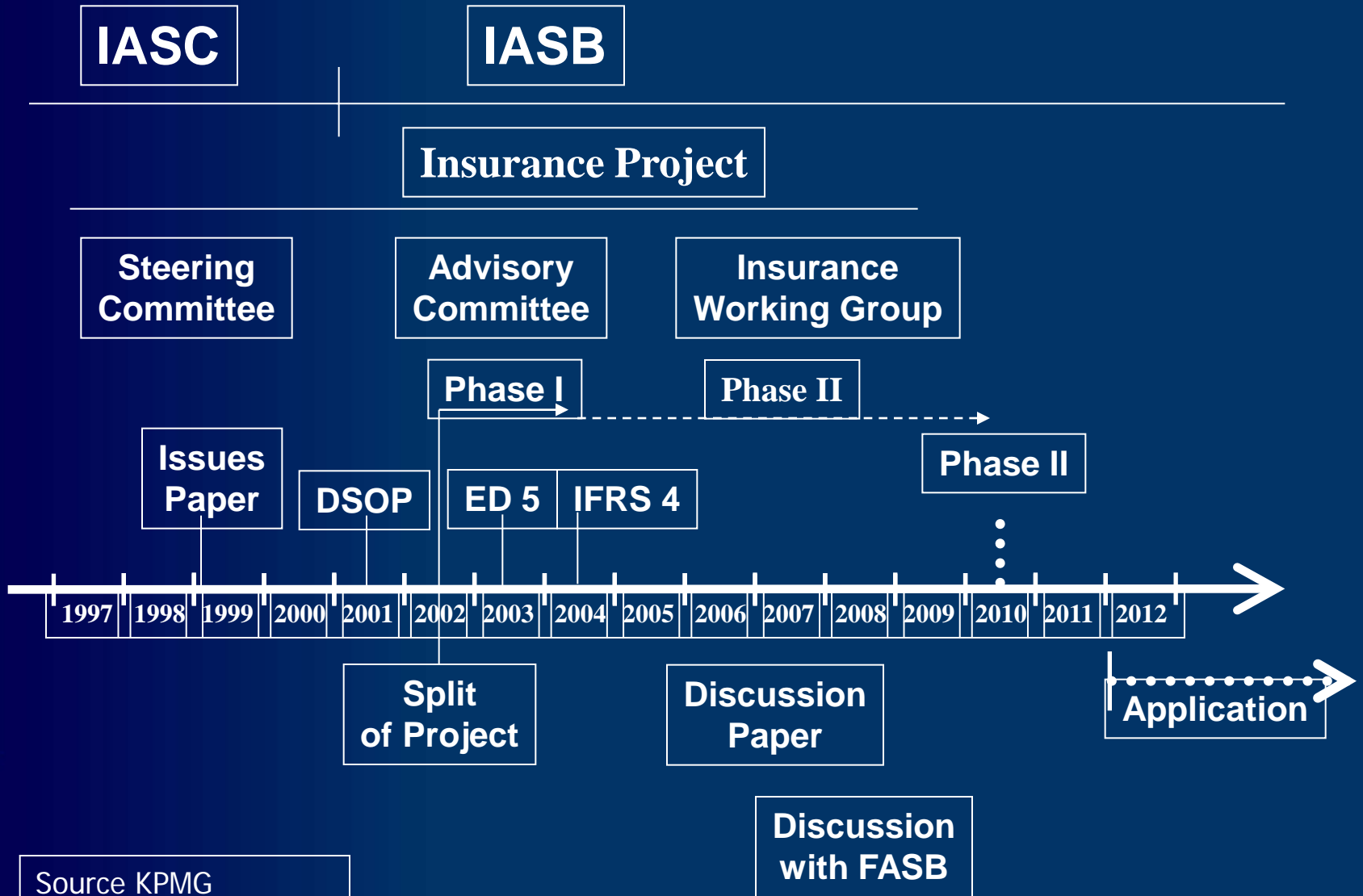


Why is the Insurance Project a Top Priority?

- Industry historically mutual in form
- Financial reporting largely dictated by national regulators (solvency driven)
 - financial reporting models quite different around the world
- Industry now demutualized; raising capital across borders
- No common regulation / capital formula without a common financial reporting basis
- If the insurers adopt fair value standard, then banks might as well



Insurance Project Timetable



Source KPMG



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IFRS Phase I --> Phase II

Assets

Liabilities

All *Insurance Contracts* and Investment Contracts with Discretionary Participation Features

Other *Investment Contracts* and All Service Contracts

Phase I
(2005)



Phase II
(20??)

IAS 39 for
Invested
Assets

IFRS 4
Status Quo

Phase II

IAS 39 and
some
aspects in
IAS 32 and
IAS 18



IAA Insurance Actuarial Practice Guidelines

- IASP 2 Actuarial Practice
- IASP 3 Classification of Contracts
- IASP 4 Measurement
- IASP 5 Current Estimates
- IASP 6 Liability Adequacy Testing
- IASP 7 Discretionary Participation Features
- IASP 8 Changes in Accounting Policies
- IASP 9 Accounting for Reinsurance Contracts
- IASP 10 Embedded Derivatives and Derivatives

Introduced July 25, 2005

Introduced June 11, 2007



Phase II Discussion Paper

- Issued May 2007; comment period November 16, 2007
- Presents tentative decisions to date by IASB
- Has considered input by a number of interest groups, such as IAA, CFO Forum, GNAIE, and IAIS
- Process will lead to final standard, replacing IFRS 4 Insurance Contracts



Phase II Discussion Paper - Objectives

- Insurance to be subject to the same general principles as other financial services firms
- Principles-based approach with additional guidance
- Consistency of treatment between insurance, investment management and banking products



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IASB DP – IAA comments

Accounting objective

- Support major thrust requiring relevant and reliable measurement
- Support, to extent relevant and reliable, market-based inputs
- Where relevant and reliable market based inputs are not available, the three building block prospective model for future cash flows could be sound
- Support for useful information to users in the balance sheet, performance measurement statement and disclosure



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IASB DP – IAA comments

Recognition

- Two views of the insurance contract
 - Financial Instrument – time contract is agreed
 - Service contract – effective date of the contract
- If Financial Instrument view prevails there will be practical systems challenges
- Contractual changes and reinsurance implications need to be addressed
- Insurance is a hybrid contract
 - Consisting of interlinked bundle of insurance, service and financial components



IASB DP – IAA comments

Measurement

- Should be based on the current economic value of the rights and obligations of the insurance contracts
- Application of up to date measurement and cash flows reflecting rights and obligations agreed
- Divergent views on the transfer notion were noted
 - Market participant view without rule constraints favoured by the majority
 - Settlement notion executed within the current organizational environment by the minority
- Application guidance should be relatively limited, focusing on high level issues, such as
 - Explicit rather than implicit calculations
 - Objectives of risk margins
- Support for no cash value floor



IASB DP – IAA comments

First building block

- When market-based expense inputs are not available nor relevant
 - Use entity-specific assumptions in their absence
- Renewal premiums
 - A measurement rather than recognition issue
 - Need to reflect policyholder behavior uncertainties in margin
- Reflect expected policyholder behavior, whether favorable or unfavorable



IASB DP – IAA comments **Second and Third Building Blocks**

- Include risk associated with service with risk margin
- Recognize diversification effect from the point of view of the market participant
- We referred to the risk margin paper that the IAA has had in exposure.



IAA – Risk Margins paper

- Generally consistent with IASB Discussion Paper
- More restricted Risk Margin approaches
- Focus on Reference Entity
- Excellent feedback



IAA – Continued Activity

- IASPs
 - Business Combinations
 - Disclosure
 - Models
 - Pensions
- Exposure Draft - Measurement of Liabilities for Insurance Contracts: Current estimates and risk margins
- Stochastic Modeling Educational Monograph
- Review of Due Process
- Identification of where new IASPs needed for Phase 2