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...March 1-4, 2009, Four Seasons, Las Vegas, NV

A Global Gathering for Senior Life Insurance and Reinsurance Executives

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March 1-4, 2009

Las Vegas, NV

**International Financial Reporting Standards:
When Will the US Enter the 21st Century?**

Rajiv Basu, Henry Siegel, Darin Zimmerman

Darryl Wagner
Moderator



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IFRS: When Will the US Enter the 21st Century?



Your Panel

- Rajiv Basu, Partner and Insurance IFRS Leader, Deloitte & Touche
- Henry Siegel, Vice President and Actuary, Office of the Chief Actuary, New York Life
- Darin Zimmerman, Senior Vice President and Chief Actuary, Transamerica Reinsurance



Agenda

- IFRS Overview
- IFRS 4 – Insurance Contracts
- Where Are We Headed?
- Which View Will Prevail?
- Implications of IFRS for Insurers and Reinsurers
- Q&A

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IFRS Overview

Rajiv Basu

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IFRS Overview

- IFRS is a set of established accounting standards that is rapidly gaining worldwide acceptance
- Standards are promulgated by the London-based International Accounting Standards Board (IASB)
- Generally more focused on objectives and principles and less reliant on detailed rules and interpretations than US GAAP

IFRS Overview: Drivers of Interest in IFRS

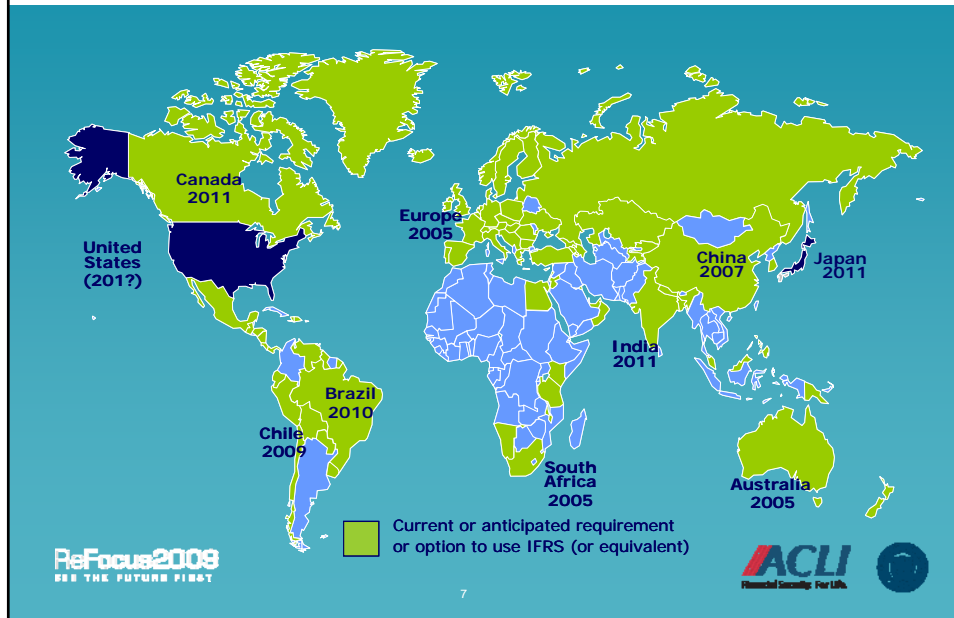
External Drivers

- Regulatory developments – SEC recently issued a proposed Roadmap with a timeline for the mandatory adoption of IFRS by US Issuers
- Concern the competition may adopt IFRS
- Globalization of capital markets
- A single, global set of accounting standards can facilitate access to foreign capital markets

Internal Drivers

- Opportunity to streamline a disjointed financial reporting process
- Ability to reduce cost of statutory reporting by developing standardized training programs
- Implementation of uniform accounting and reporting policies & procedures
- Availability and more efficient usage of resources
- Opportunity to improve internal controls
- Global mobility of people

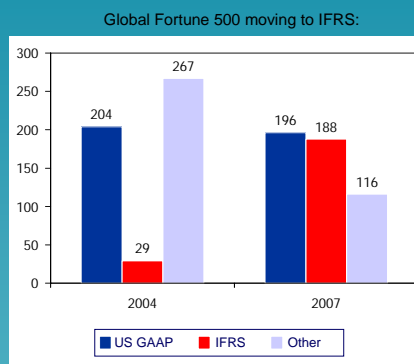
IFRS Overview: Global move towards IFRS



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IFRS Overview: Where we are today

- Today IFRS is used in over 100 countries
- By 2011, it is expected that all major countries will have adopted IFRS to some extent



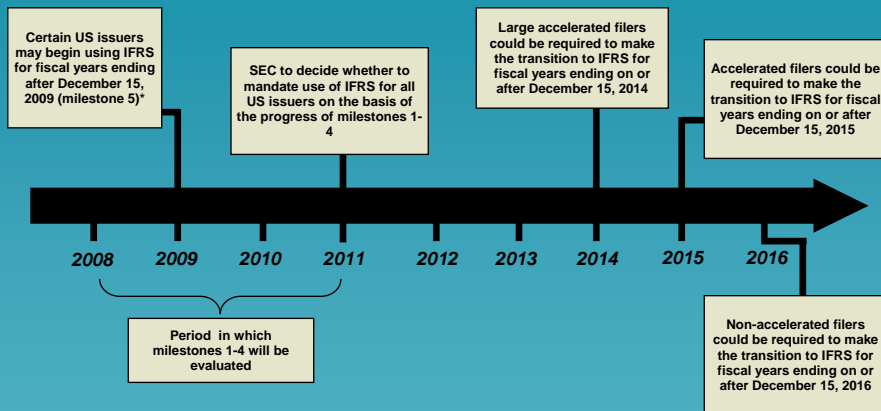
The number of Global Fortune 500 Companies utilizing IFRS is expected to continue to increase substantially, particularly as Canada, India and Brazil adopt IFRS over the next few years.

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IFRS Overview: IFRS in the U.S.

- Financial Accounting Standards Board (FASB)
 - The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have reaffirmed their convergence efforts
- Securities and Exchange Commission (SEC)
 - The elimination of a US GAAP reconciliation for Foreign Private Issuers using IFRS was issued by the SEC, effective 12/31/07 year-ends
 - On August 27, 2008 the SEC announced a proposed “Roadmap” for US issuers to transition to reporting under IFRS.
- American Institute of Certified Public Accountants (AICPA)
 - Recent and proposed future changes to rules, literature, and exams in recognition of IFRS

IFRS Overview: SEC Roadmap for IFRS



IFRS Overview: FASB/IASB Convergence Efforts

- In 2002, the Norwalk Agreement was signed
- Original FASB and IASB Memorandum of Understanding (MOU) was issued in 2006
- On September 11, 2008 the Boards issued an updated MOU.
 - Significant concern about limited progress made to date.
 - Small group was developed to make recommendations on the way forward.
 - Scope and target dates are expected to be changed.
 - Expect one year ‘quiet time’ during which companies can digest changes

IFRS Overview: FASB/IASB Convergence Efforts

Key Projects	
Convergence Topic	Estimated Completion Date/Status
Business Combinations	Completed in 2007 – FASB Statement No. 141(R) issued and IFRS 3 revisions issued in 2008
Financial Instruments	TBD – Decision by late 2008 regarding scope after considering comments on IASB and FASB exposure drafts
Financial statement presentation	2011 – IAS 1 revision issued in 2008. Joint board deliberations are on-going
Intangible assets	Not part of the active agenda as decided in 2007.
Leases	2011 – Board deliberations are ongoing. Discussion paper to be issued in second half of 2008
Liabilities and equity distinctions	2011 - Preliminary views/discussion paper published in the first half of 2008. Exposure Draft in 2009.
Revenue recognition	2011 - Joint board deliberations are ongoing. Preliminary views/discussion paper to be published in fourth quarter of 2008.
Consolidations	Both Boards to issue final standards in 2009–2010.
De-recognition	Both Boards to issue final standards in 2009–2010.
Fair value measurement	FASB: Standard 157 issued in 2006. IASB: 2010.
Post employment benefits (including pensions)	2011 - FASB: Completed first stage of FASB-defined project. IASB: Discussion paper issued in March 2008.

Key US GAAP - IFRS Differences

Common Areas of US GAAP - IFRS Differences for Insurance Companies:

- Financial instruments
- Consolidations, associates and joint ventures
- Share-based payments
- Business combinations
- Impairment of long lived assets and goodwill
- Income taxes
- Leases
- Postretirement benefits
- Other differences
- Presentational differences

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IFRS 4 – Insurance Contracts

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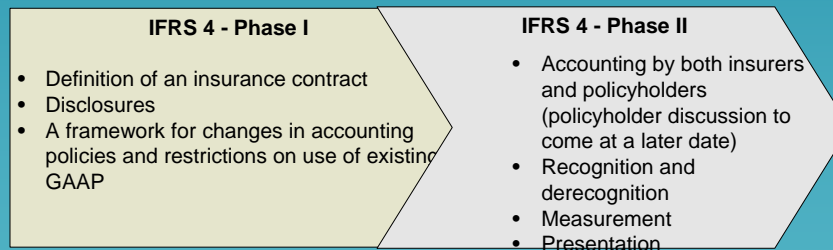


IFRS for Insurance Contracts

Objectives of IFRS for Insurance Contracts

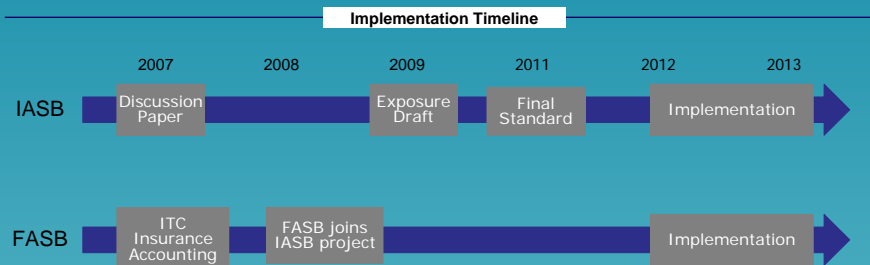
- Develop an IFRS on accounting for insurance contracts
- Address accounting for both insurers and policyholders

The IASB's insurance project is split in two phases:



IFRS 4, Phase II: FASB and IASB Timeline

FASB and Insurance IFRS Phase II



In October 2008, FASB announced that it will join the IASB Insurance project



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Where Are We Headed?

Henry Siegel



Optimistic View

- Principles-based – common standards world-wide
- Actuarially Sound
 - No large gain or loss at issue
 - Recognition of all future cash flows
 - Policyholder dividends recognized on expected basis
- Consistent with measurement of assets
- Presentation is user-needs focused

Pessimistic View

- Lots of special rules with variations in every jurisdiction
- Designed by accountants and Chief Risk Officers
 - Lots of gains or losses at issue
 - Renewal Premiums not recognized until received
 - Policyholder dividends not recognized until declared
- Lots of non-economic volatility in earnings
- Lots of extra work for actuaries to provide information of little value

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Which View Will Prevail?

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Consistency

- Need a methodology that is accessible for less developed jurisdictions
- Need to assure regulators that there is enough conservatism

Actuarial Issues

- CRO Paper on Market Value of Liabilities would create large gains at issue (\$ Billions)
- Non-recognition of renewal premiums gives strange results
- Revenue Recognition Discussion Paper would calibrate obligations to considerations, no gain at issue
 - No allowance for non-level expenses
 - Would cause significant losses at issue unless adjusted
- Needed: An adjustment to Revenue Recognition for Insurance
- Use of risk free rate for discounting could lead to losses at issue

Volatility

- Assets are on a mixed measurement basis
- Liabilities must be also to avoid non-economic volatility
- Treatment of renewal premiums could strongly influence possible volatility
- So far, boards have not taken this too seriously

Presentation

- Unbundling
 - Insurance Discussion paper called for breakout that was meaningless
 - Revenue Recognition calls for treating contract as a whole
- IFRS 4 and 7 have enhanced disclosures already
- Need to disclose reserve assumptions will create longer 10-K's
- Users have asked for gains by source disclosures
- EV permitted but not required (yet?)

I'm an Optimist!

- I think we'll get
 - No gains at issue
 - A solution to losses at issue
 - Current assumptions for base of estimate
 - Some relief from volatility on AFS portfolios
 - No unbundling of the products
 - But lots and lots of disclosures
 - A better reporting basis than US GAAP today
 - Stat will follow GAAP!



Opportunities for Reinsurers!

- Traditional businesses – stick to your knitting
- Ability to realize gains through coinsurance
- No more artificial treaties for XXX or AXXX or other non-economic transactions
- Tax and Required Surplus Advantage Deals





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Implications of IFRS for Insurers and Reinsurers

Darin Zimmerman



Likely Implications of IFRS Convergence

- Environmental change
- Resources
- Hedging
- Pricing

Environmental Change

	Rules-based	Principles-based
Advantages	<ul style="list-style-type: none"> • Easier for regulators to audit • Easier for companies to implement • Makes commercial software easier to develop and use • Makes different companies' results more comparable • More objective (safe harbors) 	<ul style="list-style-type: none"> • Always makes sense • Encourages product creativity • No incentive to manipulate design • Diminishes systemic risk (Mistakes not industry-wide.) • Actuarial focus is on price of risk, not accounting results
Disadvantages	<ul style="list-style-type: none"> • Does not always make sense • Easier to manipulate • New products can cause problems • Lack of accountability • Misdirects creativity • Regulators can't admit mistakes and fix things. 	<ul style="list-style-type: none"> • More subjective • Harder for regulator to audit • Easier to commit fraud • Easier for actuary to make a bankruptcy-sized mistake • Requires powerful analysis tools and understanding

Resources

- Does anyone remember SOX?
- Strain on Accountants
 - Parallel bases for a few years while things “settle down”
- Strain on Actuaries
- Strain on Sr. Management's bonuses
- Greatly increased need of computing power

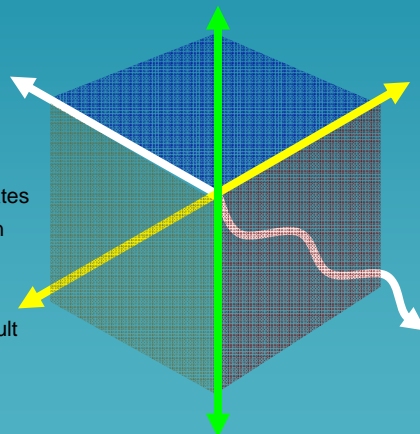
Hedging

- You can only hedge to one basis.
- How much volatility will be tolerated?
- Our capital or Wall Street's capital?
- The value of Book Value accounting
 - US actuaries have come to take it for granted and overlook the inherent value it provides

The Value of Book Value Accounting

Kinds of Risk

- Mortality
- Longevity
- Morbidity
- Persistency
- Utilization Rates
- Equity Return
- Basis Risk
- Interest
- Credit / Default
- Currency Fluctuations
- Operational



Characteristics Influencing Risk

- Male / Female / Unisex
- Smoker / Non-Smoker
- Preferred / Standard / Sub-std
- Issue Age / Attained Age 0 - 120
- Occupation Classes

Time

- UW Cycle
- Interest Rates
- Equity Returns
- Credit Cycle
- Mortality Improvement

Pricing

- Market consistent balance sheet implies the need for market consistent pricing
- Requires training of resources
- Requires implementation of new systems
- Need to consider cost of hedging



Q&A

