



SOCIETY OF ACTUARIES

**Health Spring Meeting
June 2009**

**Session # 40 PD: IASB Insurance Contracts
Project: Impact on Health Insurers**

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IASB Insurance Contracts Project: Implications For Health Insurers

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Health Care Service Corporation

SOA Spring Health Meeting, Session #40
June 9, 2009 – Toronto, Ontario



Agenda

- Top 10 reasons to care about the IASB Insurance Contracts project (Bell)
- Insurance Contracts project history & current status (Yoest)
- Key open issues in project (Yoest)
- Main implications for health insurers (Bell)
- Quantitative long-term care example (Ryabtseva)

Acronyms

IASB = International Accounting Standards Board

IFRS = International Financial Reporting Standards

FASB = Financial Accounting Standards Board (U.S.)

GAAP = Generally Accepted Accounting Principles (U.S.)

NAIC = Nat'l. Assoc. of Insurance Commissioners (U.S.)

SAP = Statutory Accounting Principles (U.S.)

AcSB = Accounting Standards Board (Canada)

Canadian GAAP

Acronyms

IASB is to IFRS

as

FASB is to GAAP

as

AcSB is to Canadian GAAP

as

NAIC is to SAP

Top 10 Reasons

“I practice only in the U.S. and/or Canada;
why should I care about the IASB
Insurance Contracts project?”

Top 10 Reasons

#10:

Some North American insurance companies
are subsidiaries of European companies that
file IFRS financial statements

Top 10 Reasons

#9:

The AcSB has already announced that Canadian GAAP will be replaced by IFRS, starting in 2011

Top 10 Reasons

#8:

The SEC Roadmap (published late 2008) creates a potential path in the US for the ultimate replacement of GAAP by IFRS

Top 10 Reasons

#7:

After the NAIC's Codification project in the 1990s, SAP is explicitly built from a "GAAP chassis"

If GAAP is replaced by IFRS, what might the NAIC need to do in response regarding SAP?

Top 10 Reasons

#6:

Although the IASB initiated the Insurance Contracts project, the FASB joined the project in 2008

Regardless of SEC Roadmap, the Insurance Contracts project is relevant to GAAP

Top 10 Reasons

#5:

Existing actuarial methodologies will likely need to be revisited in light of the aims and objectives of the Insurance Contracts project

Top 10 Reasons

#4:

For long-duration health contracts (e.g., LTC), the Insurance Contracts project may materially impact expected emergence of profit over lifetime of policy

Top 10 Reasons

#3:

The intended function of liability margins in the Insurance Contracts project may lead to changes in current actuarial practice

Top 10 Reasons

#2:

The Insurance Contracts project could make financial reporting for short-duration health contracts more complex, yet at the same time more meaningful to users

Top 10 Reasons

#1:

Discussions around the Insurance Contracts project have generally been taking place in the context of “life insurance” versus “non-life insurance”

Relatively little involvement from US health insurance sector



Implications for Health Insurers

Five broad topics:

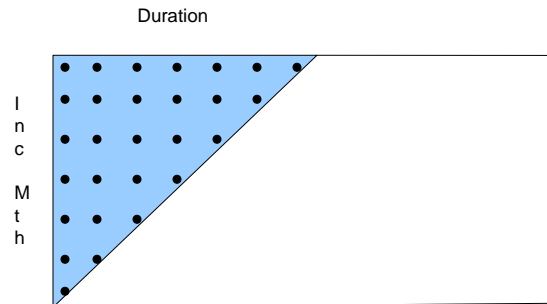
- Claim liability estimation
- Claim liability discounting
- Claim liability margins
- Pre-claim liabilities – long-term
- Pre-claim liabilities – short-term

Claim Liability Estimation

- DP's 1st building block involves developing explicit cash flow estimates for multiple scenarios to which probability weights are assigned
- Current actuarial practice for health claim liabilities can be viewed as having implicit projections of future cash flow, and implicit weighting over multiple scenarios
- Will our current methodologies be viewed as compliant with aims of new standard, or do we need to revisit those methodologies?
 - Lag-based development method
 - Tabular method

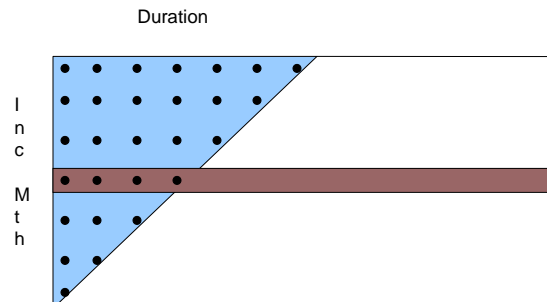
Claim Liability Estimation

- Lag-based development methods start with a triangle of paid claims data, where (for example) rows represent incurral months and columns represent elapsed duration between incurral month and payment month:



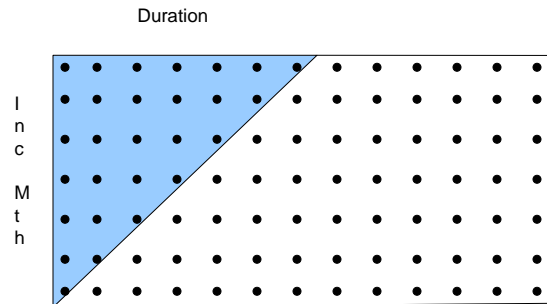
Claim Liability Estimation

- Typical methodology today involves estimating each month's ultimate incurreds (sums across rows in the hypothetical completed rectangle) and subtracting each month's cumulative paids (sum of entries in triangle) to obtain a liability estimate



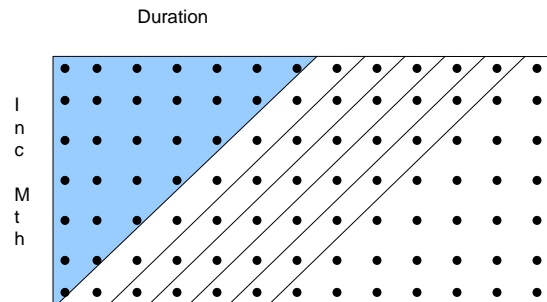
Claim Liability Estimation

- However, that methodology does not involve explicit estimation of future cash flows – to explicitly estimate cash flows, you would need to complete the claims triangle into a rectangle by estimating each remaining cell



Claim Liability Estimation

- Once we have explicitly projected each cell of the completed claims rectangle, we can derive explicit cash flow estimates by month via diagonal sums



Claim Liability Estimation

- For months where completion factors are used to estimate ultimate incurreds, it's fairly straightforward to modify the methodology in order to derive an explicit cell-by-cell completion of the claims rectangle
- For months where other methods (e.g., trended PMPMs, loss ratio) are used to estimate ultimate incurreds, additional refinement may be needed to arrive at explicit cash flow projections by month
- Alternatively: A requirement to base claim liability estimates on explicit cash flow projections may motivate the introduction of new tools & techniques

Claim Liability Estimation

- Today's methodology involves selection of a single estimate based on modeling choices (e.g., choice of completion factor averaging period, choice of PMPM for most recent incurral months)
- These choices implicitly represent averages across multiple future outcomes; but it's not explicit
- In future, may need to explicitly select different sets of scenarios & probability weights – but not necessarily a full-fledged stochastic modeling approach
- Would outcome be materially different than current deterministic approach? (Form over substance?)

Claim Liability Estimation

- Tabular methods produce a single deterministic estimate; is that sufficient, or do we need new methods with a more explicitly scenario-driven approach?
- One company has already implemented an “explicit scenario” methodology for modeling disability claims
 - Define a set of “states” that can apply in any given month (e.g., claim is open, claim is closed, claimant is dead, etc.)
 - For each claimant & month, define transition probabilities between states based on relevant variables
 - Compute future cash flow estimates for each claimant by summing over all possible future paths

Claim Liability Estimation

- DP indicated that cash flow estimates should be based on the cash flows that a market participant would experience, not on entity-specific cash flows
- What to do when contractual benefit payments depend on entity-specific contracts with providers?
 - Would you ignore all provider contracts, and estimate cash flows using billed charges?
 - Would you estimate cash flows based on your view of what “average” discounts are, instead of your own discounts?
- For health insurance, being prohibited from using entity-specific cash flows could lead to very convoluted financial statements

Claim Liability Discounting

- Today, claim liabilities produced using development methods are typically not discounted
- Once the development methodology has been modified (as discussed above) to produce explicit cash flow estimates by month, then it's easy to discount
- For most short-tail health claims, the company may be able to argue that discounting the claim liability would be immaterial
- For longer-tail health claims (e.g., disability) where discounting already used, ultimate guidance on discount rates could change current practice

Claim Liability Margins

- My assessment of common current US practice for short-duration health claim liabilities (e.g., medical):
 - Recorded liability estimate includes an explicit margin for uncertainty
 - Margin calculated as a flat % of the pre-margin estimate of the liability (i.e., a flat % of undiscounted future cash flows)
 - Level of margin is typically based on retrospective studies of reserve adequacy
 - This practice is motivated by US actuarial opinion requirement that SAP liabilities should be "good and sufficient", together with belief that there's no clear reason to have a GAAP-SAP difference for claim liabilities

Claim Liability Margins

- Current approach to setting margins has no explicit tie between level of margin and expected profitability of insurance product
- That may need to change depending on decisions made in the Insurance Contracts project
- Prevailing view is that margins need to be established to prevent premature recognition of contract gain, and that margins should be released over time as insurer is released from risk
- Under that view, claim liability margin methodology and magnitude may change

Claim Liability Margins

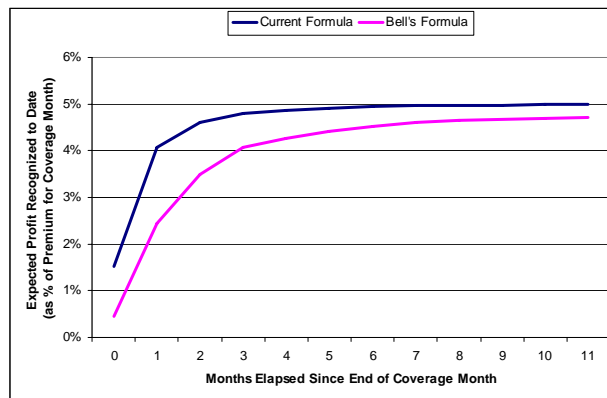
- Suppose insurer collects \$1000 in premiums for the month of January, and expects an 80% loss ratio and a 6% profit margin
- Suppose \$200 of claims have been paid by end of January; hence, base estimate of claim liability for January incurrals (ignoring discounting) is \$600
- Say insurer adds 5% margin; recorded liability = \$630
- Insurer has recognized 50% of its expected profits for this month's coverage during the same month; but has insurer been released from risk?
- Would you assume insurer's position for 3% of prem?

Claim Liability Margins

- My paper in the Aug 2008 issue of SOA's *Actuarial Practice Forum* discusses this issue in greater detail
- Two main conclusions regarding how the DP accounting model would impact current practice
 - To avoid premature recognition of gain, the level of margin needs to be implicitly tied to pricing, rather than tied to variability in the pre-margin liability estimate
 - Current practice implicitly assumes that the insurer is released from risk linearly as claims are paid; that seems inaccurate
- Paper proposes a formula that could be used to establish claim liability margins under the DP model
- As a profession, need more discussion of this issue!

Claim Liability Margins

Expected profit emergence example (from *APF* paper)



Pre-Claim Liabilities (Long-Term)

- Today, most medical insurance contracts do not record a pre-claim liability reflecting periods beyond the next contract anniversary date
 - Main exception = Individual policies where pricing structure is such that current premium partially pre-funds future claims
- In the Insurance Contracts project, how one defines the “boundaries of the existing contract” drives whether or not one includes future premiums & benefits in the calculation of the pre-claim liability
- Recent AHIP comment letter to IASB argues that the accounting needs to follow insurer’s pricing structure

Pre-Claim Liabilities (Long-Term)

- Question: If future years’ premium & claims are to be included in the pre-claim liability calculation, to what extent will that lead to accelerated recognition of profits from later years of contract?
- Presumably, margins in the pre-claim liability could be a vehicle by which premature recognition of gains from later years is prevented
- How precisely would the calculation work? Unclear; but people starting to model (see Ryabtseva slides)
- As a profession, need more discussion of this issue!

Pre-Claim Liabilities (Short-Term)

- Today, GAAP is generally interpreted as prohibiting insurers from establishing pre-claim liabilities (apart from unearned premium, if applicable) for short-duration contracts
- This means that reserves cannot be used in order to mitigate mismatches in the expected timing of premiums & claims over a 12-month contract
- This leads to difficulties for financial statement users regarding the emergence of a health insurer's gain over the calendar year
- Insurance Contracts project may offer a new path...

Pre-Claim Liabilities (Short-Term)

- The DP pre-claim liability concept could lead to material balance sheet amounts for short-duration products that today don't record such a liability
- Depending on the nature of the product, these amounts could be positive or negative, in theory
- In practice, it is unclear whether a "negative pre-claim liability" will be allowed under the ultimate guidance
- As a profession, need more discussion of this issue!
- Examples to follow...

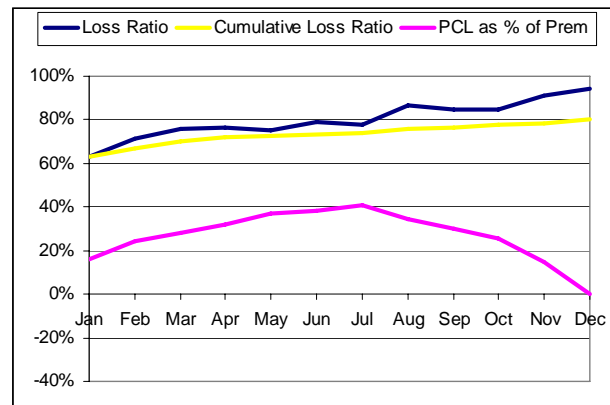
Pre-Claim Liabilities (Short-Term)

Assumptions underlying all examples:

- 12-month contract, priced at 80% loss ratio over policy year
- For accounting purposes, contract is deemed to end at anniversary date (hence, liability calculation ignores premiums & claims beyond anniversary date)
- Level monthly premiums, due on 1st of each month (hence, no unearned premium at any month-end)
- Cost-sharing features of contract based on calendar year (hence, pattern of claim costs by incurral month does not depend on the policy issuance month)
- (Implicit) margin in liability to prevent premature recognition of profit margin associated with future periods

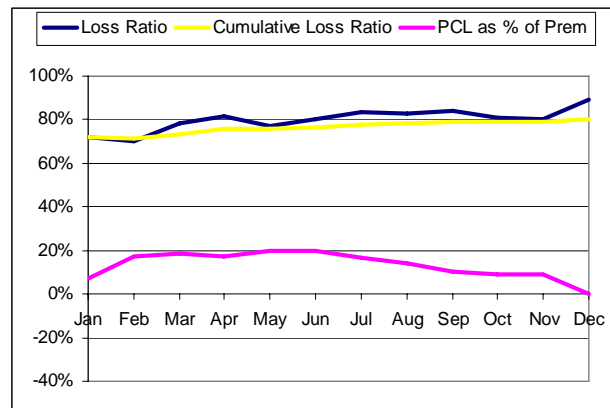
Pre-Claim Liabilities (Short-Term)

“Individual medical” example, issued in January



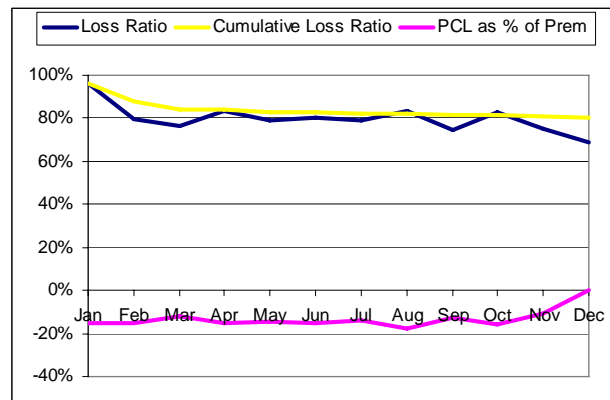
Pre-Claim Liabilities (Short-Term)

“Group medical” example, issued in January



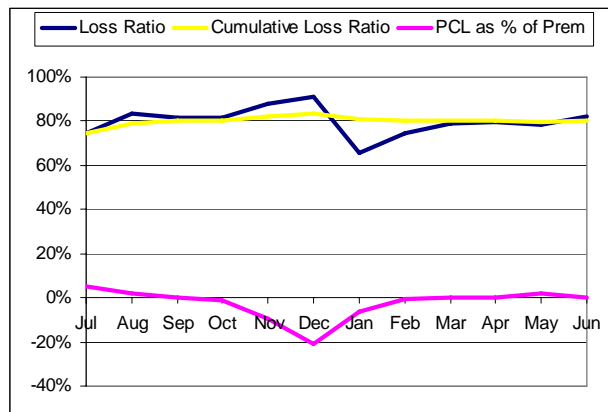
Pre-Claim Liabilities (Short-Term)

“Medicare Supplement” example, issued in January



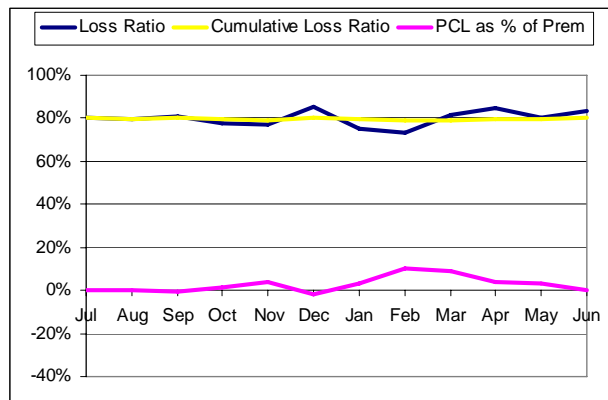
Pre-Claim Liabilities (Short-Term)

Individual medical example, issued in July



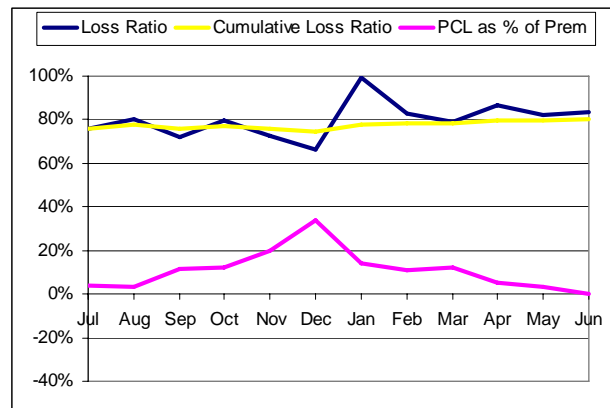
Pre-Claim Liabilities (Short-Term)

Group medical example, issued in July



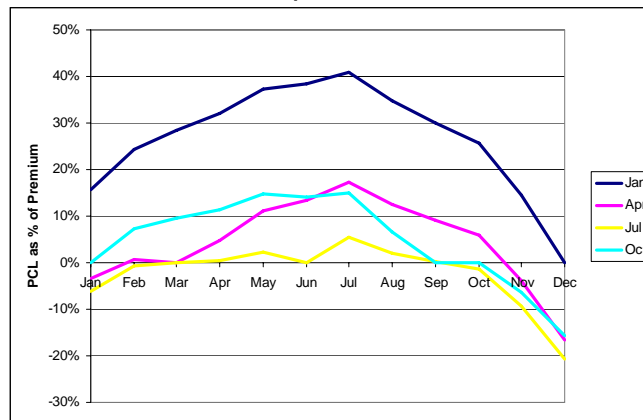
Pre-Claim Liabilities (Short-Term)

Medicare Supplement example, issued in July



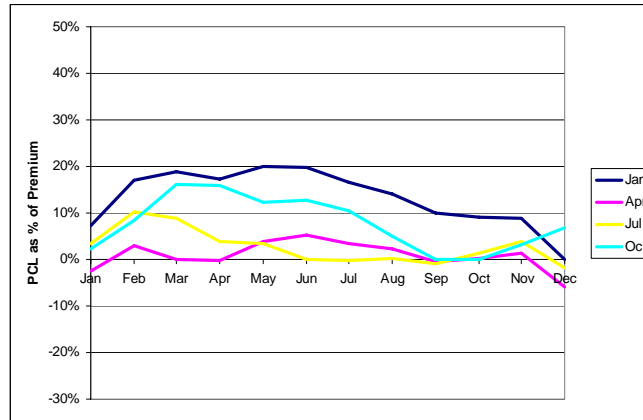
Pre-Claim Liabilities (Short-Term)

Individual medical example, various issue months



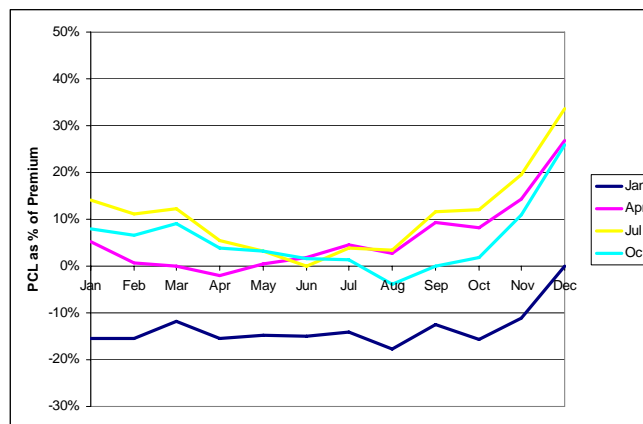
Pre-Claim Liabilities (Short-Term)

Group medical example, various issue months



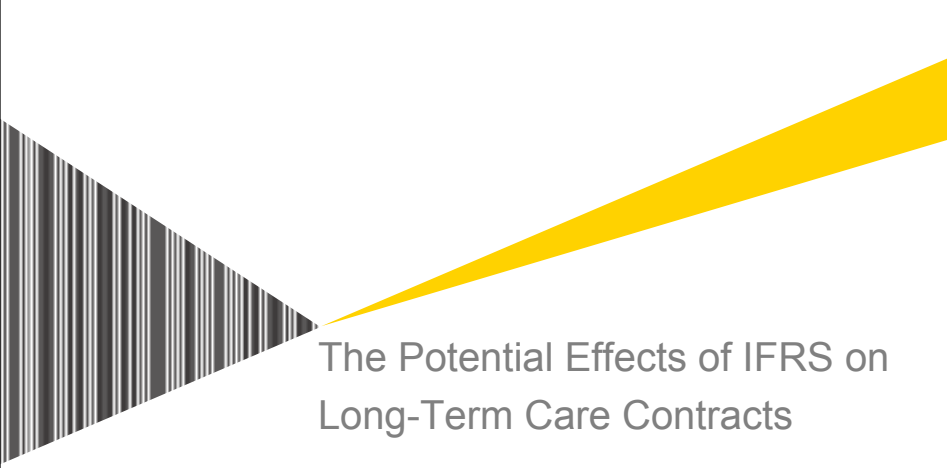
Pre-Claim Liabilities (Short-Term)

Medicare Supplement example, various issue months



Pre-Claim Liabilities (Short-Term)

- With pre-claim liabilities for short-duration products, the month-to-month progression of insurer's expected gain throughout calendar year becomes more steady
- Arguably, a better reflection of economics of business
 - Products are priced on an annual basis, not a monthly basis
- Additional complexity, but additional value for financial statement users (particularly internal users)
- Potential utility of this framework dampened if insurers not allowed to recognize negative pre-claim liabilities



The Potential Effects of IFRS on
Long-Term Care Contracts

Elina Ryabtseva, FSA, MAAA
2009 Health Spring Meeting, June 8-10

ERNST & YOUNG
Quality In Everything We Do

Agenda

- ▶ Brief overview of the critical inputs to an IFRS model — assuming broad consistency with the IFRS Phase II Insurance Contracts Discussion Paper (DP)
- ▶ Discussion of the potential effects of IFRS on long-term care (LTC) and comparison with statutory and GAAP results
- ▶ Summary

Overview of the critical inputs to an IFRS model (assuming broad consistency with the DP)

- ▶ Risk margins
- ▶ Discount rates
- ▶ Nonperformance risk
- ▶ Noneconomic assumptions

Risk margins approaches

- ▶ Cost of capital method
- ▶ Quantile methods
 - ▶ Percentile/confidence levels
 - ▶ Conditional tail expectation (CTE)
- ▶ Discount related methods
- ▶ Explicit assumptions
 - ▶ Required inputs (common in regulatory accounting)
 - ▶ Fixed percentage risk margin (current Canadian approach)

The effects of IFRS on LTC and comparison with statutory and GAAP results

Results of a liability model for new LTC issues:

- ▶ Product description
- ▶ Statutory/ US GAAP/ IFRS:
 - ▶ Assumption matrix
 - ▶ Reserves – Baseline
 - ▶ Projected profits - Baseline
- ▶ IFRS valuation sensitivities - assumptions
- ▶ Projected IFRS profits - sensitivities:
 - ▶ Sensitivity 1 - Nonperformance risk
 - ▶ Sensitivity 2 - Reduction of annual premiums
 - ▶ Sensitivity 3 - Nonperformance risk and premium reduction
 - ▶ Sensitivity 4 - Setting risk margins to achieve zero first year profit

Product description

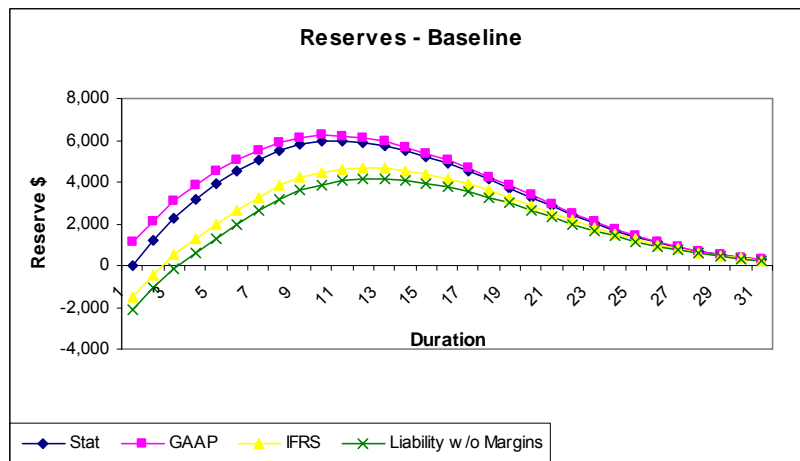
Modeled LTC product:

- ▶ A single policy
- ▶ Issue age: 70
- ▶ Premiums: \$1,850 paid annually, issue-age based, guaranteed renewable
- ▶ Benefit eligibility: Substantial help with at least 2 of 6 activities of daily living for at least 90 days, or substantial supervision due to Alzheimer's, brain injury, stroke, or other cognitive impairment
- ▶ Benefits: \$100/day for life
- ▶ Inflation option: No inflation of benefits
- ▶ Premium waiver: After elimination period expires
- ▶ Elimination period: 90 days
- ▶ Restoration of benefits: Not available on lifetime benefit periods

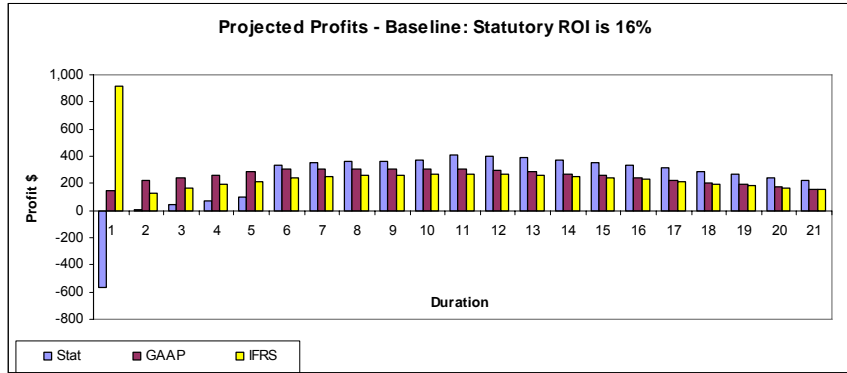
Assumption matrix

	Discount Rate	Commissions	Non-Commission Maintenance Expense	Non-Commission Acquisition Expense	Premium Tax	Benefit Claim Cost	Lapse	Mortality	Earned Rate
Statutory	4.00%	N/A	N/A	N/A	N/A	Experience w/ 5% Morbidity PAD	Same as experience	Same as experience	N/A
GAAP	Earned Rate w/ 25 bp PAD	Same as experience	Same as experience	Same as experience	Same as experience	Experience w/ 5% Morbidity PAD	Same as experience	Same as experience	N/A
IFRS (Baseline)	Risk free rate (5.00%)	Same as experience	Same as experience	Same as experience	Same as experience	Experience w/ 5% Morbidity Margin	Same as experience	Same as experience	N/A
Experience		% of Premium: 1 st yr – 95%, 2-5 yr – 20%, 6-10 yr – 7.5% 11+ - 5%	Fixed and variable, adj. for inflation	20% of 1 st yr Premium	2% of Premium	Claim Cost Table plus factors	Schedule	1994 GAM with projection plus factors	A corporate (6.25%)

Reserves — baseline



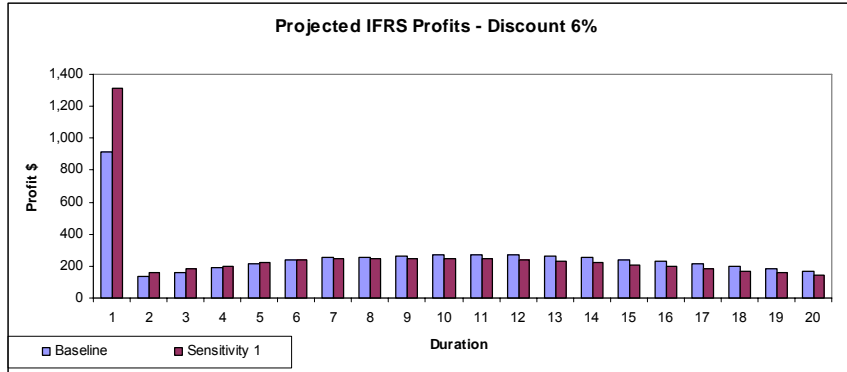
Projected profits — baseline (assuming no limitations on day-one profits)



IFRS valuation sensitivities — assumptions

Run	Discount rate	Risk margin		
		Morbidity	Lapse	Mortality
Baseline	5%	5%	None	None
Sensitivity 1 (includes own credit)	6% (AA corporate)	5%	None	None
Sensitivity 2 (10% reduction in premiums)	5%	5%	None	None
Sensitivity 3 (includes own credit and 10% reduction in premiums)	6% (AA corporate)	5%	None	None
Sensitivity 4 (zero first year profit)	5%	8%	50 bps down	40 bps down

Sensitivity 1 — nonperformance risk (assuming no limitations on day-one profits)

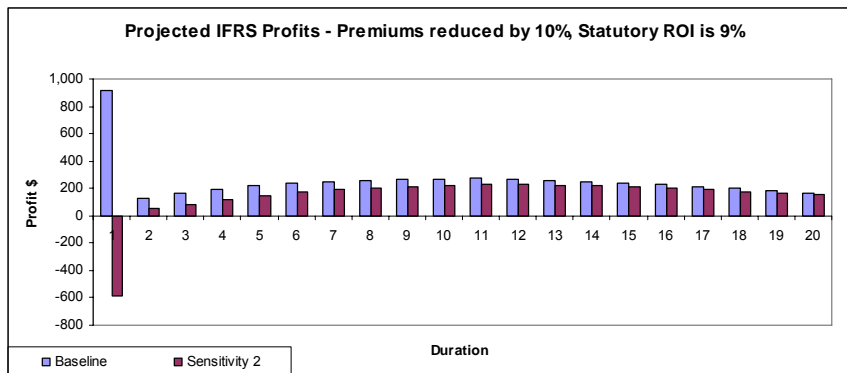


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The Potential Effects of IFRS on Long Term Care Contracts

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Sensitivity 2 — reducing annual premiums (assuming no limitations on day-one profits)

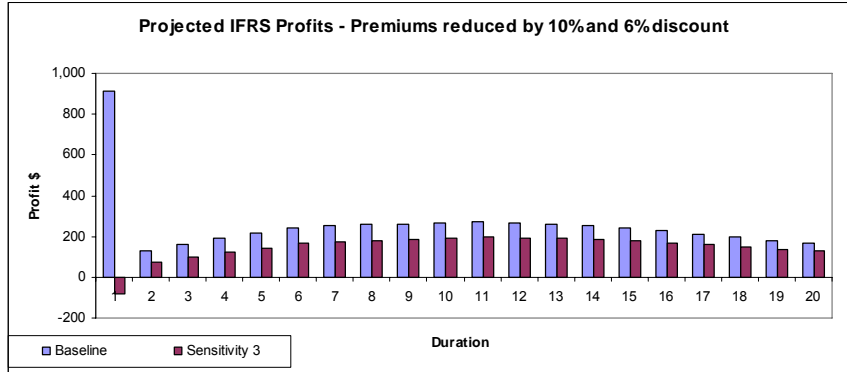


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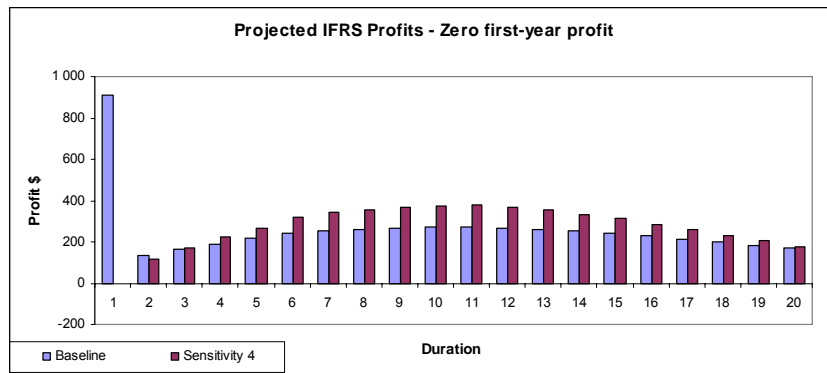
The Potential Effects of IFRS on Long Term Care Contracts

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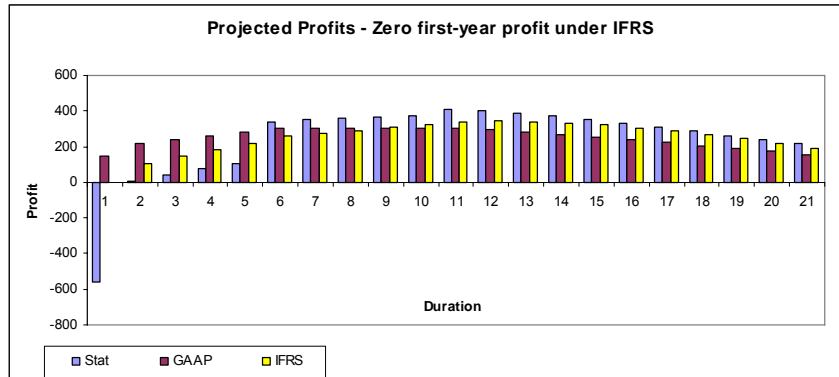
Sensitivity 3 — nonperformance risk and premium reduction (assuming no limitations on day-one profits)



Sensitivity 4 — setting risk margins to achieve zero first-year profit



Projected profits — assuming no day-one profits are allowed under IFRS



Summary

- ▶ Effects of IFRS Phase II on long term health products will obviously depend on how the insurance standard ends up. And it will vary by insurer due to differences in pricing, underwriting and expected experience
- ▶ Potentially higher profits upfront (assuming no limitations on day-one profits)
- ▶ Potentially more volatile earnings
- ▶ The timing of reported profits depends on the amount and pattern of release of risk margins

Deloitte.

IASB Insurance Contracts Project:
Impact on Health Insurers
Project Status and Issues Currently
Under Discussion

Mark Yoest, FSA, MAAA

June 9, 2009, Toronto, Canada

Background on IFRS

IFRS Overview: Background

IFRS is a set of established accounting standards that is rapidly gaining worldwide acceptance

Standards promulgated by the London-based International Accounting Standards Board (IASB)

- 14 members from major countries, including U.S.
- Alongside IASB there is an International Financial Reporting Interpretation Committee (IFRIC) responsible to develop interpretations of IFRS

Generally more focused on objectives and principles and less reliant on detailed rules and interpretations than US GAAP

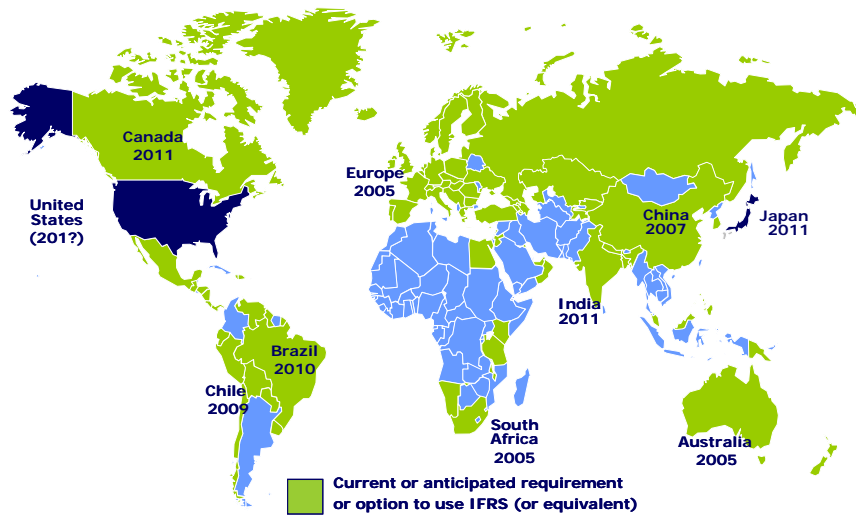
- A single volume of approximately 40 standards and 25 interpretations
 - Standards include International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs)
 - Interpretations include SICs and IFRICs
- IASB develops IFRSs with reference to its Framework for the Preparation and Presentation of Financial Statements

IFRS Overview: Key Characteristics

Key characteristics of IFRS:

- Greater use of fair value as a measurement basis
- Principles-based approach that places greater emphasis on interpretation and application of principles, with a particular focus on the spirit of the principle being applied
- Standards that necessitate the assessment of the substance of transactions and whether the accounting presentation reflects “economic reality”
- A renewed focus on the need for professional judgment in arriving at accounting conclusions
- Economic substance and economic reality are repeated themes in IFRS guidance and in the IASB's conceptual framework for IFRS

IFRS Overview: Global Move to IFRS



IFRS Overview: U.S. Move to IFRS

Financial Accounting Standards Board (FASB)

- The IASB and the FASB have reaffirmed their convergence efforts

Securities and Exchange Commission (SEC) / Obama Administration

- Issued elimination of US GAAP to IFRS reconciliation for Foreign Private Issuers
- On August 27, 2008 the SEC issued a proposed “Roadmap” for US issuers to transition to reporting under IFRS:
 - Describes milestones for the mandatory transition to IFRS starting in 2014
 - Permits the largest US companies an option to adopt IFRS starting in 2009
 - Comments on Proposed Roadmap due April 2009
- January 2009: new SEC chair Mary Schapiro that she would not “feel bound” by the roadmap. Later said she “is not prepared to delegate standard-setting or oversight responsibility to the IASB.”
- Paul Volcker, Chair of the Economic Recovery Advisory Board, has reiterated his support for IFRS standards

IFRS for Insurance Contracts

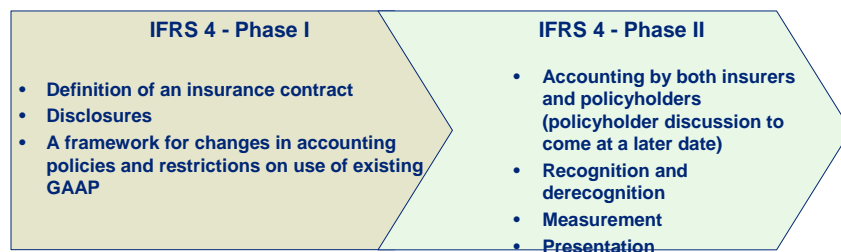
IFRS 4, Phase I into Phase II

IFRS for Insurance Contracts

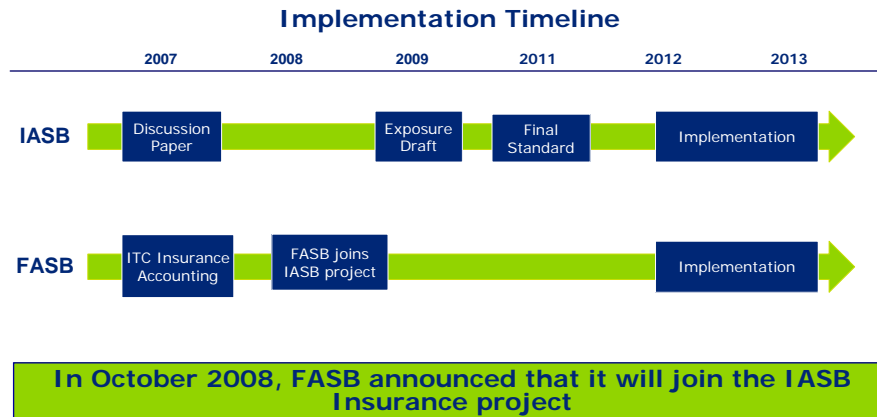
Objectives of IFRS for Insurance Contracts:

- 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



IFRS 4, Phase II: Key Elements of IASB Discussion Paper

A single measurement model

- Applies to life and non-life insurance
- Applies to direct insurance and reinsurance

Applies throughout the life of the contract

- Pre-claims liability (“the insurer’s stand-ready obligation to pay valid claims for future insured events arising under existing contracts”)
- Claims liability (“the liability to pay valid claims for insured events that have already occurred, including claims incurred but not reported (IBNR)”)

IFRS 4, Phase II: Key Elements of IASB Discussion Paper

Measurement Attribute = Current Exit Value (CXV)

“The amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.”

3 building blocks to measure insurance liabilities:

Cash Flows	Explicit, unbiased, market-consistent, probability weighted and current estimates of the contractual cash flows
Discounting	Current market discount rates that adjust the estimated cash flows for the time value of money
Margins	Discussion Paper requires an explicit and unbiased estimate of the margin that market participants require for: <ul style="list-style-type: none">• Bearing risk (a risk margin); and• Providing other services (a service margin)

But the above model is already changing...

IFRS 4, Phase II: Building Block 1: Cash Flows

Building Block 1: Cash Flows

Explicit, unbiased, market-consistent, probability weighted and current estimates of the contractual cash flows.

An insurer should develop estimates of cash flows that:

- are **explicit**;
- are as consistent as possible with observable market prices;
- incorporate, in an **unbiased** way, all available information about the amount, timing and uncertainty of all cash flows arising from the contractual obligations; probability-weighted
- are **current**, in other words, they correspond to conditions at the end of the reporting period;
- exclude entity-specific cash flows. Cash flows are entity specific if they would not arise for other entities holding an identical obligation.

IFRS 4, Phase II: Building Block 2: Discounting

Building Block 2: Discounting

The time value of money is taken into account by explicitly discounting all liability cash flows - life and non-life.

The discount rate should:

- NOT be influenced by assets held to match liabilities (unless a link exists);
- Be consistent with observable market rates;
- NOT reflect the risk inherent in the cash flows.

IASB does not intend to issue detailed guidance on the selection of the discount rate.

IFRS 4, Phase II: Building Block 3: Margins

Building Block 3: Margins

Risk and service margins should reflect the uncertainty in the estimated cash flows.

The risk margin

- should reflect the market rate for bearing risk;
- cannot be observed in the absence of a market;
- must be estimated at inception and subsequently;
- is not a shock absorber;
- should be updated at each reporting date;
- should be explicit and unbiased.

The service margin:

Unbiased estimate of what market participants require for rendering other services

IFRS 4, Phase II: Other Elements of Discussion Paper

Beneficial Policyholder Behavior

- Insurer takes into account the customer relationship (and future premiums) when setting the liability from expected cash flows, provided 1 of 3 criteria met:
 - Resultant Increase in Liability (i.e. policyholder behavior not beneficial)
 - Insurer is able to compel payment
 - Premiums are required to ensure guaranteed insurability

Guaranteed Insurability = “a right that permits continued coverage without reconfirmation of the policyholder’s risk profile and at a price that is contractually constrained”

Acquisition Costs

- Expensed as incurred
- No DAC

Portfolio View

- Unit of account = “portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio”
- Allows for pooling of risk between individual contracts
- Risk margin should make no allowance for diversification between portfolios

Credit Characteristics / Non-Performance Risk

- The liability of the insurer = the insurance asset of the policyholder
- The value of the asset is reduced by, amongst other things, the possibility that the insurer is not financially able to pay benefits under the policy.
- Proposal would take credit into account when calculating liability

IFRS 4, Phase II: Responses to Discussion Paper

- Around **160 responses** submitted
- Strong **support** in developing an international insurance accounting standard
- Broad agreement to measuring with the **three building blocks**, however concern among P&C insurers whether such estimation is an improvement for current actuarial process and a “one-model” fits all approach
- Majority of commentators had strong objections to “transfer value” as a measurement attribute; general **preference for “fulfillment value”** concept
- **More guidance required on margins**
- Mixed views on permitting **Day 1 profit**
- Generally **against reflecting credit characteristics** in liabilities

IFRS for Insurance Contracts

Working Towards an Exposure Draft

IFRS 4, Phase II: Timetable for IASB Discussions (Tentative)

Date	Topics (not exhaustive)
06/2009	<ul style="list-style-type: none">•Policyholder Participation (classification and measurement)•Policyholder Accounting – Initial Review•Meeting of Insurance Work Group
07/2009	<ul style="list-style-type: none">•Conclusion on Measurement Approach<ul style="list-style-type: none">•Recognition and De-recognition•Definition of an Insurance Contract
09/2009	<ul style="list-style-type: none">•Disclosures<ul style="list-style-type: none">•Taxes•Policyholder Accounting – Follow-up
10/2009	<ul style="list-style-type: none">•Pre-balloting
11/2009	<ul style="list-style-type: none">•Sweep Issues
12/2009	<ul style="list-style-type: none">•Publish Exposure Draft
04/2010	<ul style="list-style-type: none">•Comments on Exposure Draft Due
05/2011	<ul style="list-style-type: none">•Publication of Final Standard
01/2013	<ul style="list-style-type: none">•Effective Date of Final Standard (Deloitte estimated)

Current Discussions: Day 1 Gain

Issue: Measuring insurance liabilities using a set of assumptions based on a market view (rather than those used in pricing) may result in a Day 1 liability (including margin) that is less than the premium received, resulting in a Day 1 gain. Is this appropriate?

IASB and FASB tentatively approve prohibition of recognition of an accounting profit on Day 1.

Implication: Margins likely to be calibrated to premium in some form (as opposed to estimates of cash flows). This leads to discussion on how will margin be released...

Current Discussions: Measurement Attribute

Issue: There is not necessarily a market for insurance contracts as there may be for other financial instruments. Typically an insurer “exits” a contract upon having fulfilled its obligations to the policyholder under the contract. How can an insurer model market-consistent cash flows?

IASB: small majority in favor of a Current Fulfillment Value (CFV) attribute.

FASB: stated preference for CFV.

Current Fulfillment Value = “the present value of all expected cash flows that the insurer anticipates over the life of the contract, taking into account the most relevant and reliable available market and entity specific information”

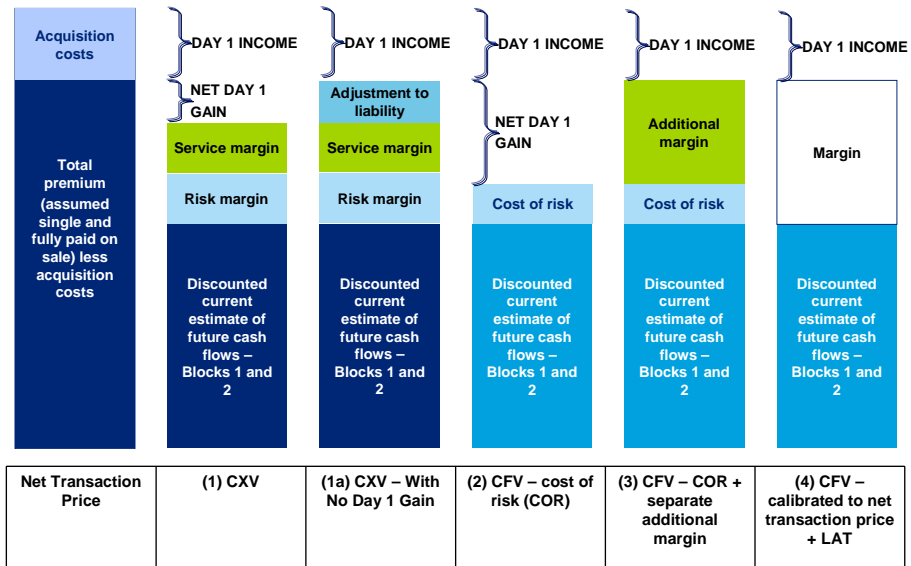
Implication: Where market information is not observable, the use of entity-specific information may be permitted.

Current Discussions: Candidate Measurement Attributes

Attribute		(1) Current Exit Value	Current Fulfillment Value		
			(2) Cost of Risk (COR)	(3) COR + No day 1 profit	(4) Calibrated to Price
Cash Flows	Portfolio-specific	Included For Both Exit Value and Fulfillment Value			
	Entity-specific	Excluded	Included		
Assumption if no market price		Estimate of Market's View	Estimate of Own View		
Margin	Risk	Based on Market Price of Risk	Based on Entity COR		Composite Margin = Calibrated to premium
	Other	Service Margin = Mrkt compensation for services	N/A	Additional Margin = Calibrated to premium	
Day 1 Profit		Yes	Yes	No	No
Own credit risk		Impacts liabilities	Not considered when setting liabilities		
Release of Margin / Recognition of Profit		CFs & Margin recalculated each period.	CFs & Margin recalculated each period.	CFs & Risk Margin recalculated each period. Add Margin release pending determination.	CFs recalculated each period. Composite Margin release pending determination.

For short-duration, non-life, pre-claims liabilities, an UPR attribute is also proposed for pre-claims liability.
Simple to calculate, but the best answer for Health Insurers?

Current Discussions: Candidate Measurement Attributes



Current Discussions: Boundaries of the Contract

Issue: The DP suggests that future premium should be considered in the calculation of a pre-claims liability if insurability is guaranteed (a right that permits continued coverage without reconfirmation of the policyholder's risk profile and at a price that is contractually constrained). What if the insurer has an unrestricted ability to re-underwrite or re-price the contract? Are renewals considered a new contract?

Not purely an insurance accounting problem (analog: accounting for a lease). IASB and FASB do not have resolution on this, as this is tied to a Revenue Recognition project. AHIP paper addresses A&H perspectives.

Implication: Stay tuned.

Current Discussions: UPR for Pre-claims Liability

Issue: Certain insurers, particularly P&C companies, favor use of a UPR for the pre-claims liability for short-duration, non-life insurance contracts. Risk of such contracts (e.g. Medicare Supplement) is not always level throughout life of contract.

Discussions on the acceptability of UPR as a measurement approach for a pre-claims liability on short-duration, non-life insurance contracts not resolved at FASB and IASB.

Implication: There is still time for North American health actuaries to weigh in on this subject!

Current Discussions: Use of Discount Rates

Issue: Certain insurers, particularly P&C and health insurers, have not commonly discounted unpaid claims liabilities.

IASB and FASB tentatively approved requiring the discounting of cash flows in insurance contract liabilities.

Implication: Be able to break out unpaid claim liabilities into future, discountable cash flows.

Current Discussions: Acquisition Costs

Issue: Should the measurement of insurance liabilities reflect costs related to acquiring the business?

IASB and FASB moving towards requiring that acquisition costs be expensed as incurred. There is not yet consensus between IASB and FASB on the definition of acquisition costs, or the manner in which offsetting premium revenue would be recognized.

Implication: DAC will be a thing of the past.

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