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IFRS & US GAAP: International Financial Reporting for Insurers
August 30 – September 1, 2010

Hong Kong

SOA 2008/2010 Study

Michael Lockerman

Actuaries
Risk is Opportunity.

SOA 2008/2010 Study

On Accounting Standards for Insurance Contracts

Michael Lockerman

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Numerical Examples from 2008 Study

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SOA 2008 Study

- Society of Actuaries Study
  - Completed February, 2008
  - Commissioned by American Academy of Actuaries for their response to IASB
  - 15 U.S. companies
  - 20 Submissions
  - 80 pages
  - Available on SoA website
    - www.soa.org/research/research-life.aspx

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Products Covered

- Traditional life (Term)
- Universal life (UL)
- Variable universal life (VUL)
- Single premium fixed deferred annuity (SPDA)
- Variable deferred annuity
- Single Premium Immediate Annuity (SPIA)
- Long-term care
- Supplemental health (medical)

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Process

- Project Manager – PwC
- Education Sessions
- Templates
- Cash Flow and GAAP Reserves
- Risk Margins
- Vetting

Deliverables

- Existing business and new business
- US GAAP – balance sheet and income statement
- IFRS – balance sheet and income statement
- Alternative scenarios
- Observations

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Take a Look

- Let's look at six products
  - New business income statements
  - IFRS basis is "Implementation B," Exit Value
  - Liability basis is sum of
    - PV of cash flows and
    - PV of margins,
    - Both discounted at risk-free rate
  - Margins use Cost of Capital method

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Risk Margins – Liability

- The liability for risk margins
  = Present Value of Cost of Capital rate
  × capital in year t

where
Present Value uses discount rate from the scenario,
Cost of Capital rate is 12%, and
Capital in year t comes from capital factors
on next slide

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Risk Margins – Capital Factors

Sample Capital Factors	AV/Claim	Face	Premium
Fixed Annuity	1.15%		3.08%
Immediate Annuity	1.15%		3.08%
Participating WL	1.15%	0.9%	3.08%
Supplemental Health	5.00%		4.27%
Term Life		0.9%	3.08%

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Risk Margins – Calibration

- Base line – used 100% United States Risk Based Capital (RBC), an estimate of economic capital
- For perspective:
  - 300–750% – most companies
  - 300% – an A company
  - 100% – company action

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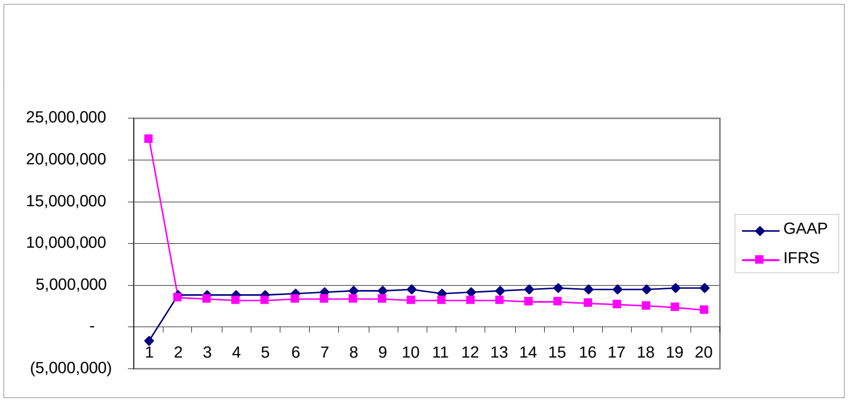
Term – GAAP and IFRS – Income



First year premium = $28,000,000

Term – Comment on First Year Earnings

- GAAP – first year non-deferrable costs of $5.5 million cause a loss
- IFRS – day one gains are $21 million; days 2–365 gains are $2 million

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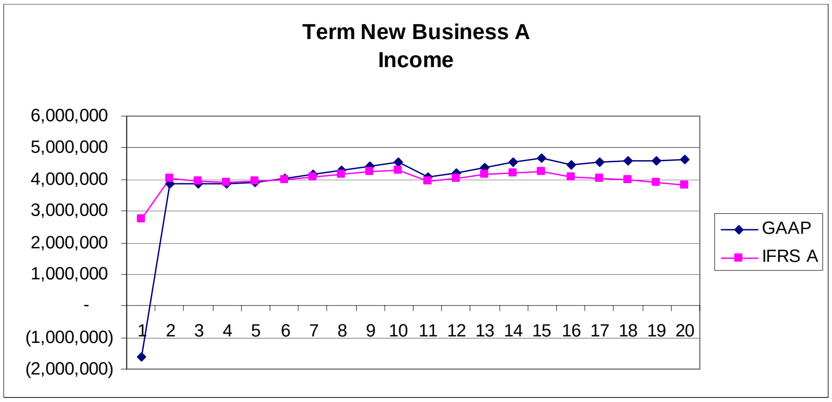
Term - GAAP and IFRS "A" Income



first year premium of $28 million

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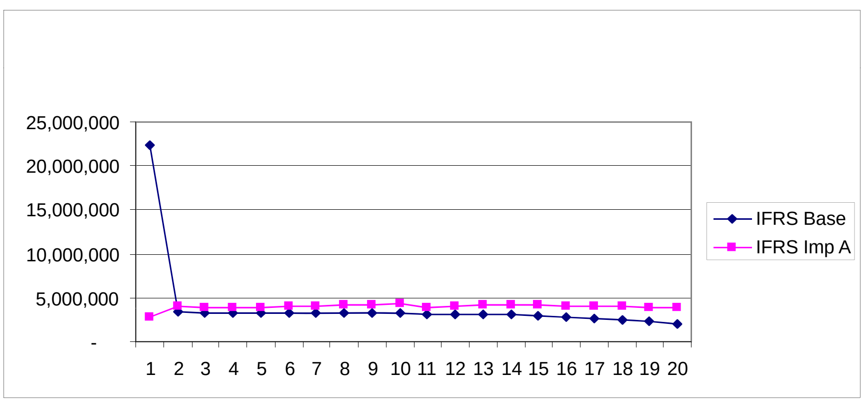
Term – IFRS “B” and “A” – Income



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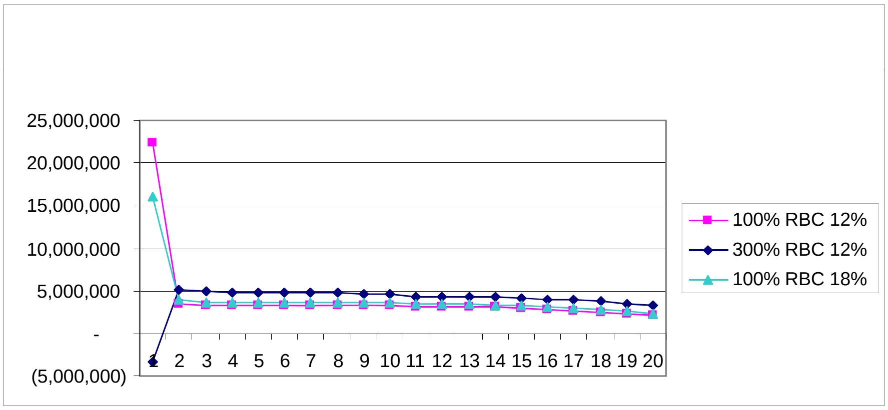
Term – Risk Margin Sensitivity – Income



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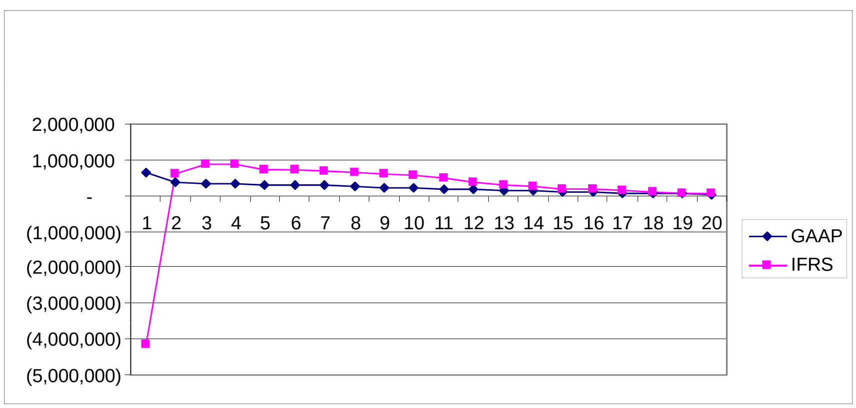
SPIA – GAAP and IFRS – Income



Premium = $117 million

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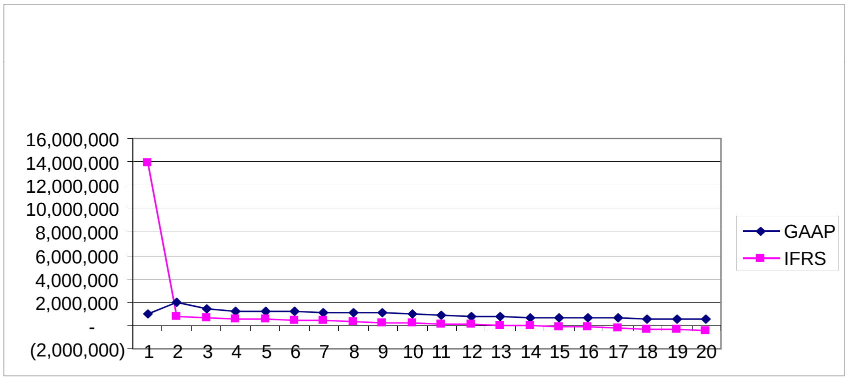
Health GAAP and IFRS – Income



First year premium = $3.2 million

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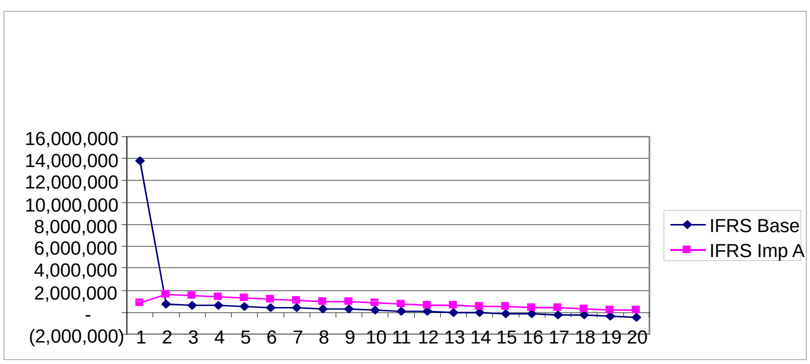
Health IFRS “B” and “A” – Income



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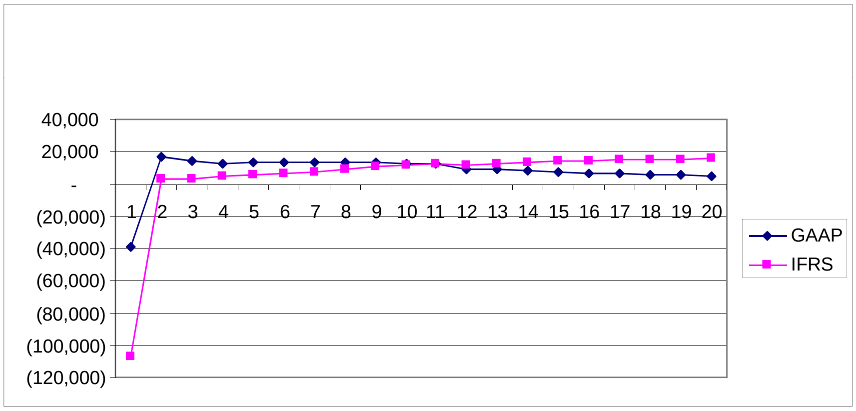
Par Whole Life GAAP & IFRS – Income



First year premium = $133,000

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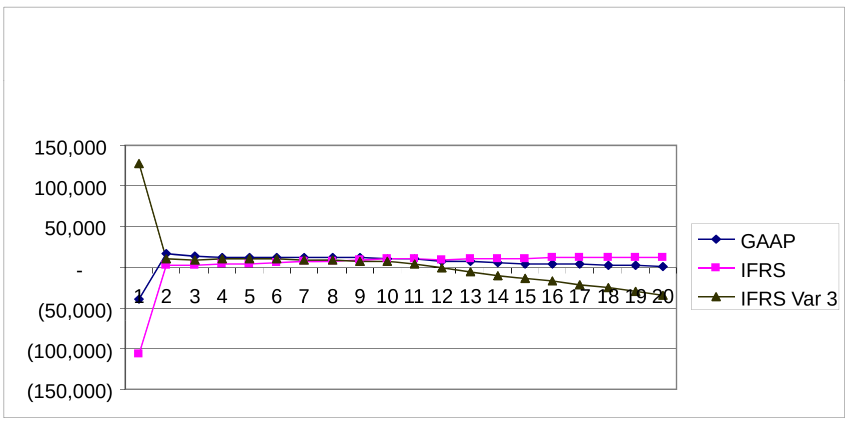
Par Whole Life – Exclude Dividend – Income



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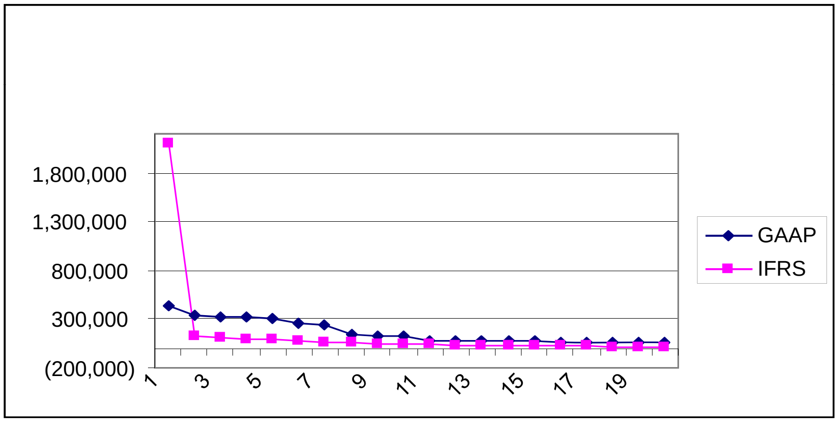
Variable UL GAAP and IFRS – Income



First year premium = $3.2 million

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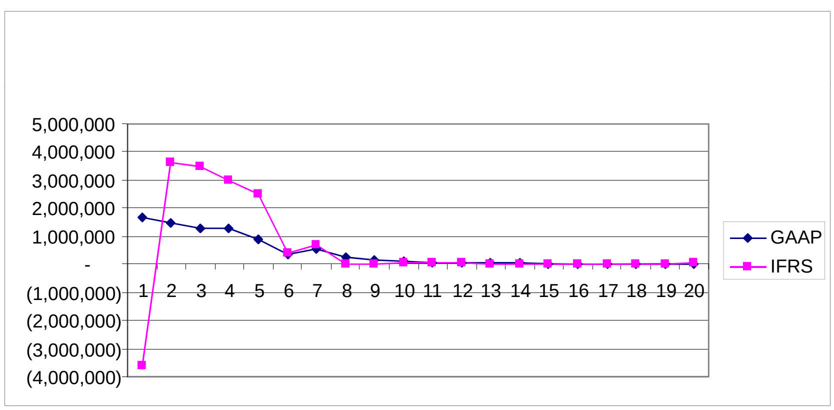
SPDA GAAP and IFRS – Income



Premium = $3.2 million

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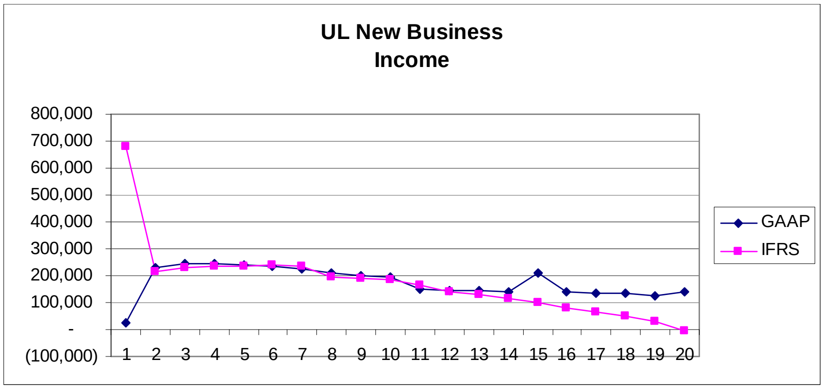
UL GAAP and IFRS – Income



first year premium of $5.8 million

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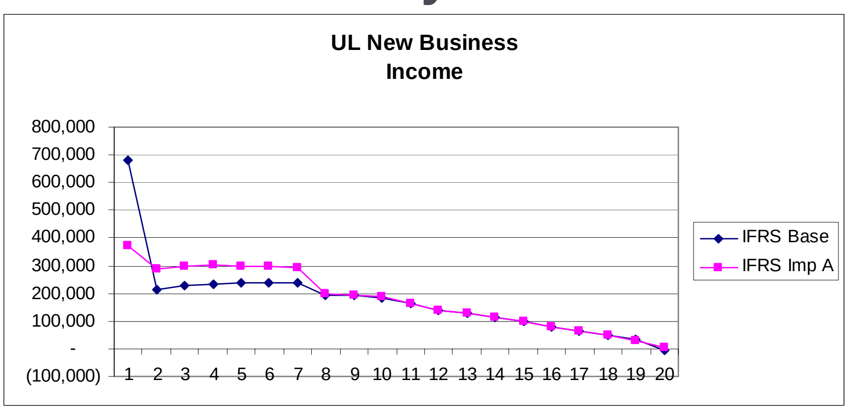
UL Exit and Entry Income



first year premium of $5.8 million

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Summary 1 of 2

- Income varies dramatically by product
- Products that derive a significant portion of their profits from investment income will show lower profits, or losses, in year one.

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Summary 2 of 2

- Products with significant sources of profits other than investment income portray a larger year one income
- Initial and subsequent profitability is extremely impacted by choice of methods and assumptions to determine risk margins

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2010 Update

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Status

- Generally the same participants and coverage
- Updated for the exposure draft
- Results submitted for consolidation over the next month
- Targeted delivery to meeting response deadline of 30 November

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