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Challenging Times

CHAIRPERSON'S CORNER

By Tara Hansen

For many years we have thought that we would be in the midst of dramatic changes on the financial reporting front. We thought we would be implementing new accounting frameworks for statutory purposes in the form of principle-based approaches and fair value type calculations for GAAP reporting purposes. These implementations would have put tremendous pressure on our actuarial organizations and would have been a sea change for financial reporting actuaries across North America and the globe. Although these frameworks have not materialized as soon as we expected, we have found ourselves under significant strain as we begin 2015, driven by various events.

The biggest stressor has been the prolonged low interest rate environment. We may have optimistically thought we were out of the woods in the first half of 2014, but dramatic drops in interest rates at the end of 2014 reversed that position, causing significant additional work to be performed for reserve adequacy analysis under statutory and GAAP frameworks alike.

In addition to the low interest rate environment, we are also undergoing a period of regulatory reform in the United States driven by state and federal regulators which is beginning to impact the financial reporting realm. Late in 2014, Actuarial Guideline 48 (AG 48) was adopted by the NAIC, providing for stronger asset requirements for captive insurers. AG 48 introduces the use of principle-based approaches to determine the level of allowable assets required in captive arrangements formed in 2015 and later as well as newly issued contracts in 2015 and later that are added to existing captive arrangements. For companies that previously had no capability to calculate principle-based reserves, this will present additional challenges during 2015.

Also in the United States, as we move through 2015, we expect additional movement on the principle-based reserve front as the NAIC feels pressure from federal regulators to complete the development and adoption of the principle-based requirements for U.S. statutory reserves. The Financial Accounting Standards Board (FASB) is continuing to review targeted improvements to U.S. GAAP, which will likely consist of opportunities to join the debate during 2015, but no final changes are expected this year.

In Europe, the International Accounting Standards Board (IASB) is continuing to move toward finalizing its accounting standard for insurance contracts. This standard will apply to Canadian insurers and U.S. subsidiaries of European insurers, so these companies are beginning to develop implementation plans in anticipation of the final standard.

Although we are not in the midst of the big bang of change we might have been expecting, the slow changes together with the prolonged low interest rate environment are proving to keep our lives in the financial reporting arena plenty challenging! ■



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