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International Accounting Standards for the Insurance Industry

by Bruce D. Moore

International Accounting Standards (IASs) have played an increasingly important role in recent years, a role that is likely to increase in the future. For the insurance industry, however, they have not yet played a significant role. Standards have not yet been developed for major items such as policy reserves and deferred acquisition cost assets. However, this is about to change. The International Accounting Standards Committee is beginning to work on developing standards for the insurance industry. This is a development that actuaries involved in financial reporting or international operations should follow.

IASs are developed by the International Accounting Standards Committee (IASC). The IASC is a body similar in role and operation to the FASB in the U.S., and several similar bodies in other countries. The IASC has part-time board representatives from the accounting profession, industry, accounting, education, and financial analysis from around the world. Their process of standards development is in many ways similar to that of the FASB, with development of exposure drafts and distribution of those for comments before taking a final position. However, they operate with a much smaller staff.

The increase in corporate financing across borders in recent years has increased the importance of IASs. Companies seeking to raise capital in multiple national capital markets now potentially face the burden of preparing financial statements based on several different national accounting standards bases. To avoid the additional cost and inconvenience of this burden, there is a desire to have IASs be generally accepted by securities regulators around the world for financial statements of companies raising capital in their countries. There is also pressure from the financial analyst community to have more meaningful IASs.

This has led to a push to fill perceived gaps in the existing IASs, to provide a solid foundation for reporting results internationally. The current work on a new IAS pension standard, which many of you may be aware of, is part of that process. The current target is for core standards generally applicable to all industries to be in place by the spring of 1998. At that point there will be an effort to forge a general agreement among international securities regulators that these should be for foreign companies raising capital in the future. Securities regulators will undoubtedly retain the right to review each case going forward but, hopefully, with a strong inclination to accept IASs.

In addition to the standards generally acceptable to all industries, the IASC will be pursuing industry-specific standards, including standards for the insurance industry.

Insurance has been given a high priority, but with the understanding that the IASC will not have time to devote to it until after the March 1998 target for the more broadly applicable standards. The current plan is to have IASC staff begin working on these standards now, with IASC consideration of them to begin some time in 1998 aiming for final approval to take place in early 1999.

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The actuarial profession has begun to organize to participate in this process. The International Forum of Actuarial Associations (IFAA) has formed a subcommittee chaired by Sam Gutterman. Other North American members include Ed Bonach, Dick Robertson, Bruce Moore, and Mo Chambers. The American Academy of Actuaries has also formed a working group to support this review process, providing its input to the IFAA comment process. It is chaired by Bruce Moore, with other members including Ed Bonach and Dick Robertson (also on the IFAA subcommittee), Dan Kunesh, Jan Lommele, and Cynthia Miller. Lauren Bloom provides Academy staff support.

While the initial IASC staff paper on insurance standards has not yet been released, another important document in this process was recently released by the IASC. This was a discussion paper on accounting for financial assets and financial liabilities. It was published in March 1997, with a comment deadline of July 1997. It is intended to apply to insurance enterprises as well as others. It takes the position that "fair value" is the appropriate basis for valuing financial assets *and* liabilities, including insurance and reinsurance obligations. It concedes that further work needs to be done to determine how to apply those principles to insurance, reinsurance, and pension obligations, but asserts that those are the basic principles that should be followed. That discussion draft is lengthy—more than 200 pages—with extensive discussions of issues of less immediate concern to actuaries as well. However, those strongly interested in IAS for insurance may find it interesting reading. It can be ordered from the International Accounting Standards Committee offices in London (phone 44–171–353–0565, or fax 44–171– 353–0562).

IASs are not intended to replace U.S. GAAP for U.S. companies. However, many U.S. actuaries work for subsidiaries of large foreign insurers that have shown interest in raising capital in U.S. markets, and some have even converted to U.S. GAAP for that purpose. This development will be of special interest for them.

Furthermore, to the extent that the IASC develops standards for insurance significantly different from U.S. GAAP, that will create an uneven playing field in the capital markets and ultimately in the insurance markets. This may well lead to pressure on FASB to reconsider its insurance standards. Consequently, this process could have important implications for all financial reporting actuaries.

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