



SOCIETY OF ACTUARIES

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## Actuaries respond to IASC issues paper

by Sam Gutterman

The Insurance Accounting Committee of the International Actuarial Association (IAA) has expressed its support for the efforts of the International Accounting Standards Committee (IASC) to achieve consensus on an international accounting standard for insurance contracts. The IAA committee's statement is its initial response to the release on Dec. 2, 1999, of the IASC's "Issues Paper on Insurance Accounting," the product of two-and-a-half years of effort.

Due to the increasing internationalization of the insurance industry, an international standard that provides more understandable and transparent financial information is urgently needed. In addition, with the emergence of global insurance, banking, and stock-broker groups, the IAA committee considers the public interest to be best served by applying consistent accounting treatment to similar products written in different financial institutions.

Many of this 22-member committee generally favor the trend toward use of fair values on balance sheets. Nevertheless, our position is that, whatever the basis used for valuing assets, the corresponding liabilities of a company must be valued in a consistent manner. To do otherwise carries the potential to impart misleading information to policyholders, shareholders, management, analysts, and the public.

In addition, this committee supports an accounting regime designed to meet the dual objectives of:

- Generating a realistic view of operations focusing on expected future cash flows, reflecting the duty of management to add value for shareholders and to protect the interests of policyholders
- Demonstrating the adequacy of supporting capital to cover the risks associated with the business

Regarding the second item, the IAA committee supports efforts to develop

an appropriate risk-based capital adequacy measurement regime to be applied to all international financial institutions.

The IAA is the organization representing professional actuarial associations internationally. It is not a trade association and does not represent the interests of either clients or employers of actuaries. The IAA currently has 41 full-member and 20 observer-member actuarial associations. These member associations encompass more than 97% of the world's practicing professional actuaries.

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### Input needed on issues paper

Comments on the "Issues Paper on Insurance Accounting" developed by the IASC's Steering Committee on Insurance are requested by May 31. The committee hopes to get input from a broad range of individuals and organizations. "I encourage everyone with an interest in financial reporting of insurance activities to comment on the issues paper," said Warren McGregor, committee chairman.

The issues paper identifies:

- The different forms of insurance contracts and the specific characteristics relevant to determining the appropriate accounting treatment

- The accounting and disclosure issues and arguments for and against possible solutions to those issues
- The tentative views of the steering committee at this early stage of the project

It is published with an accompanying booklet that contains:

- 82 illustrative examples
- A summary of relevant national standards and requirements in 17 countries
- A summary of the main features of the principal contracts found in eight countries

- A glossary of terms used in the paper
- A summary of the tentative views expressed in the paper

Copies of the IASC issues paper, *Insurance*, (Volumes 1 & 2: ISBN 0 905625 75 7 and ISBN 0 905625 76 5) are available for US\$51 from the International Accounting Standards Committee, Publications Department, 166 Fleet Street, London EC4A 2DY, United Kingdom. Other contact information is: phone, +44 (0171) 427-5927; fax, +44 (0171) 353-0562; e-mail: [publications@iasc.org.uk](mailto:publications@iasc.org.uk); Internet, [www.iasc.org.uk](http://www.iasc.org.uk).