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## Letter from the Editor

by Thomas Nace

This is the final issue of 2001. I am happy to report that with this issue, we have once again been able to provide to our readership four issues per year on a somewhat regular basis. While this may not seem like much of a feat, it is a goal for our Section. My hat goes off to all of the authors who have contributed to the *Financial Reporter* over the past year. The quality of the articles that have been submitted has been exceptional. Thanks to all of you!

In case you placed one of the 2001 issues aside, intending to get back to it when you had more time, but have since lost your yellow-sticky reminder, the following list might jog your memory. Below are some of the topics covered by technical articles that have appeared this past year in the *Financial Reporter*:

- Update on the UVS Project
- DAC unlocking for variable annuities
- Admitting an asset under new codification rules
- UL nonforfeiture issues
- The proposed new Standard Non-forfeiture Law
- Fair Value (2 different articles)
- Update on the Liquidity Working Group
- GAAP reserves for GMDB's
- GAAP for non-traditional products
- XXX issues, including the effect on deficiency reserves
- PGAAP VOBA within a fair value of liabilities context

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## Why More U.S.A. Life Insurance Companies Are Considering Economic Value as an Additional Internal Accounting System

by Armand de Palo

Economic Value is an accounting method that was not widely used in the United States, but recently has been adopted by an increasing number of U.S.A. insurance companies. The reasons for using Economic Value vary by company, but part of this increased use is due to the fact that many of these companies are now owned by foreign parent companies. International companies have to deal with accounting systems that vary widely by country, and they therefore, need a consistent internal accounting system for all subsidiaries.

Countries like Canada<sup>1</sup> are now also looking to establish public disclosure standards, which currently do not exist because Economic Value is not normally used for public disclosure purposes. Although one of the biggest advantages of Economic Value is that it can be linked to pricing and is not subject to standard-

ized rules, standards are needed if Economic Value numbers are to be disclosed to the public.

Many U.S.A. insurance companies may ask why they should consider the additional expense of adopting yet another accounting system that is only useful for internal reporting, if they are not owned by a foreign parent company. The answer from those companies



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Supplementing this list, of course, are the many articles that appeared in the newsletter whose focus was to provide updates to current developments in the industry and the Section.

Rounding out the list of technical articles for 2001 are the articles which appear in this issue of the newsletter.

The cover article deals with Economic Value (sometimes called Embedded Value). More and more companies are

turning to this as a secondary or even primary means of internal management reporting. I am very pleased to have engaged Armand de Palo to write an article on this topic.

It has been a goal of mine to get an article addressing Risk Management for some time now, as it is a topic which has not received a lot of press in our newsletter over the years. Frank Sabatini and Joseph Weiss have stepped up to the plate to co-author a comprehensive article dealing with this subject. I know you'll agree with me that it has been worth the wait.

Paul Margus addresses some interesting issues involving fair value accounting

in his article which appears in this newsletter.

Specifically, Paul looks at an approach for valuing liabilities in a fair value reporting system.

David

Heavilin and Karen Sasveld team up once again, this time to provide an analysis of the impact of the new SOP dealing with long duration contracts. While this topic was highlighted in the last issue of the newsletter, this article provides a detailed look at the reserves required for GMDB's under the new SOP and their impact on the pattern of GAAP earnings. This is scheduled to be the first of two articles dealing with this topic, the next article tentatively scheduled for the following issue.

At the Annual Meeting in New Orleans, Mike Eckman turned over the green jacket, symbolizing the position of Section Chair, to our new Chairperson, Barry Shemin. Don't miss the pictures included in this issue capturing the changing of the guard. (Fortunately, the black and white photos cannot capture the true style and beauty of this fine garment.) One of Barry's first acts in his new position is to contribute his Section Chair article to the newsletter. Catch Barry's views on the Section and the challenges that lie ahead in this, his first article as Section Chair.

Here's to a new year of success and accomplishment for our new Chair and the entire Section!



*Tom Nace*

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