



International Accounting Standards Board®

# Press Release

3 May 2007

## **IASB launches public consultation on proposed enhancements to accounting for insurance contracts**

The International Accounting Standards Board (IASB) has today launched a public consultation on accounting for insurance contracts by publishing its preliminary views in a discussion paper.

This announcement is the latest stage of a consultation which began in 2004 when the IASB set up an Insurance Working Group of senior representatives of the insurance industry and other interested parties. The public consultation will last for a period of six months and will aid the IASB in developing firm proposals for an exposure draft to be published towards the end of 2008. Allowing for a further period of public consultation, the IASB expects the new standard to be in place in 2010.

Commenting on today's announcement, Warren McGregor, IASB member, said:

For many years, users of insurers' financial statements have complained that insurance accounting is a 'black box' and insurance accounting standards varied widely by country. The disclosure requirements in our existing standard, IFRS 4 *Insurance Contracts*, shone some light into this area of accounting, but IFRS 4 is only an interim standard and permits a wide variety of accounting practices for insurance contracts. Many of these practices make it difficult to understand insurers' financial statements and differ from those used in other sectors. This discussion paper presents our initial thoughts on how to finish the job we started with IFRS 4 and we now invite broad public consultation on the preliminary conclusions we have reached.

On behalf of the Board I thank the members of the Insurance Working Group for the time and expertise they have so generously given in helping the Board to develop its thinking.

The discussion paper *Preliminary Views on Insurance Contracts* is available for eIFRS subscribers from today. Those wishing to subscribe to eIFRSs should visit the online shop at [www.iasb.org](http://www.iasb.org) or contact:

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Printed copies of the discussion paper (in two parts—ISBN 978-1-905590-35-3 for the set) will be available shortly, at £16.00, from the IASC Foundation Publications Department.

From 14 May, the text of the Discussion Paper will be available freely from the IASB's Website.

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**Notes to Editors**

**Background information**

The paper proposes that an insurer should measure its insurance liabilities using the following three building blocks:

- explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows.

- current market discount rates that adjust the estimated future cash flows for the time value of money.
- an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin).

In the IASB's view, a measurement using the three building blocks will provide several benefits to users of an insurer's financial statements:

- relevant information about the amount, timing and uncertainty of future cash flows arising from existing insurance contracts.
- explicit and more robust estimates of cash flows and margins.
- a consistent approach to changes in estimates.
- an appropriate and consistent approach for all types of insurance (and reinsurance) contracts. This will:
  - provide a coherent framework to deal with more complex contracts (such as multi-year, multi-line or stop loss contracts) and to resolve emerging issues without resorting to unprincipled distinctions and arbitrary new rules.
  - limit the need for arbitrary rules on such matters as embedded derivatives, financial reinsurance, and amendments to existing contracts.
- consistency with other International Financial Reporting Standards (IFRSs) that require current estimates of future cash flows in measuring non-financial liabilities and financial liabilities.
- clearer reporting of economic mismatches between insurance liabilities and related assets, and a reduction in accounting mismatches.
- consistency with observable current market prices, to the extent they are available. Such prices provide an understandable and credible benchmark for users, even though market prices are not available to support all inputs used in measuring insurance liabilities.

The paper:

- suggests that an informative and concise name for a measurement that uses the three building blocks is 'current exit value'.

- defines current exit value as the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. A measurement at current exit value is not intended to imply that an insurer can, will or should transfer its insurance liabilities to a third party. Indeed, in most cases, insurers cannot transfer the liabilities to a third party and would not wish to do so. Rather, the purpose of specifying this measurement objective is to provide useful information that will help users make economic decisions. In addition, ‘current exit value’ is not meant to imply that the insurer does not intend to settle its obligations with the policyholder. Ultimate settlement with the policyholder would clearly be an important consideration in the price that the third party would charge for assuming the liabilities.

The paper addresses several other topics, including policyholder behaviour, participating contracts and the reporting of changes in insurance liabilities.

Comments on the paper are requested to be received in writing by 16 November 2007. The IASB will review the responses and amend or confirm its preliminary views before developing an exposure draft for public comment. When the IASB develops an exposure draft, it will pay particular attention to the need for users of an insurer’s financial statements to receive relevant and reliable information, capable of preparation at a reasonable cost, as a basis for economic decisions.

The US Financial Accounting Standards Board plans to publish an Invitation to Comment containing this discussion paper, and has said that it will use the responses it receives in deciding whether to add to its agenda a joint project with the IASB to develop a comprehensive standard on accounting for insurance contracts.

### **Composition of the Insurance Working Group**

#### **Members:**

Phil Arthur, Partner, Ernst & Young, Canada

Norbert Barth, Associate Director, Senior Analyst, Equity Research, DZ Bank AG, Germany

Steven Bensinger, Chief Financial Officer, American International Group, United States

Philip Broadley, Chief Financial Officer, Prudential, United Kingdom

Richard Carbone, Chief Financial Officer, Prudential Financial, United States

Tony Coleman, Chief Risk Officer and Chief Actuary, Insurance Australia Group, Australia

Denis Duverne, Chief Financial Officer, Axa, France

Sam Gutterman, Chair of Insurance Accounting Committee,  
International Actuarial Association, International/United States

Rob Jones, Managing Director, Standard & Poors, United Kingdom

Patrick O'Sullivan, Chief Growth Officer, Zurich Financial Services, Switzerland

Hitesh Patel, Partner, KPMG, United Kingdom

Helmut Perlet, Chief Financial Officer, Allianz, Germany

Jörg Schneider, Chief Financial Officer, Munich Re, Germany

Jerry de St Paer, former Chief Financial Officer, XL Capital, Bermuda

Joseph Streppel, Chief Financial Officer, Aegon, The Netherlands

Mark Swallow, Chief Accounting Officer, Swiss Re Switzerland

David Wheat, Chief Financial Officer, ING US Financial Services, United States

Hiroyuki Yamaguchi, General Manager, Sompo Japan Insurance, Japan

Masaaki Yoshimura, Chief Representative in New York,  
Sumitomo Life Insurance Company, Japan

Alan Zimmerman, US Director of Research, Fox-Pitt, Kelton, United States

### **Observers**

Basel Committee on Banking Supervision

European Financial Reporting Advisory Group (EFRAG)

International Association of Insurance Supervisors (IAIS)

International Organization of Securities Commissions (IOSCO)

### **Also participating:**

Staff of the Australian Accounting Standards Board

Staff of the US Financial Accounting Standards Board

### **About the IASB**

The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB.

The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.