Life Convention 2006 IFRS Phase II: Sorting out Insurance Accounting Once and For All? November 2006	
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Background Recent IASB discussions and tentative decisions	
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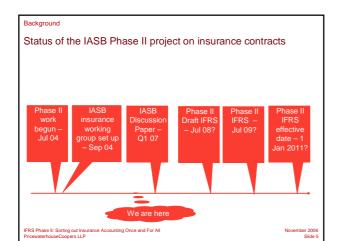
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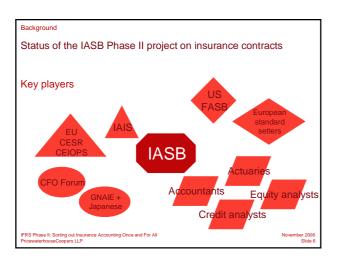
History of IASB insurance discussions

- Draft Statement of Principles published in 2001
- In 2002, EU requirement to implement IFRS in 2005 meant project split into Phase 1 and Phase 2
- Phase 1 = IFRS 4
 - Insurance contracts and participating contracts on existing accounting
 - Investment contracts under IAS 39/IAS 18
 - Minor modifications to some current accounting approaches
 - Substantial qualitative and quantitative disclosure requirements

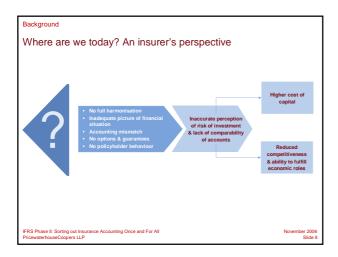
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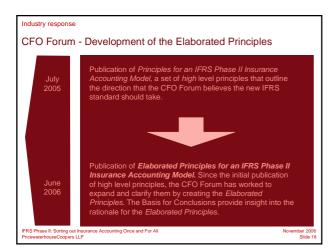


Section two	
Background	
Recent IASB discussions and tentative decisions	
Industry response	
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Recent IASB discussions and tentative decisions	
Overview of current tentative decisions Measurement	
Wedstrement	
•Several models being considered	
- Entry value	
- Exit value	
•Current value inputs	
current estimates of future cash flows current market discount rates	
risk margin and service/profit margin	
•Gains on inception?	
Camb of incoption:	
	-
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Recent IASB discussions and tentative decisions	
Overview of current tentative decisions	
Measurement (cont)	
Comment with only	
•Current exit value	
"amount insurer would expect to have to pay today if it transferred all its remaining contractual rights and	
obligations immediately to another entity"	
•No conclusion yet whether this is fair value	
Credit characteristics	
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Recent IASB discussions and tentative decisions	
Overview of current tentative decisions	
Future Premiums and Policyholder Behaviour	
•Future premiums are usually optional	
•Future premiums cash flows included if either:	
- value of future benefits exceeds value of future premiums	
- right to enforce payment of premiums	
- right to guaranteed insurability	
Customer relationship identified Include as part of liability	
Include as part of liability	
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Recent IASB discussions and tentative decisions	1
Overview of current tentative decisions	
Participating Contracts	
•Definition of Discretionary Participating Feature unchanged	
Policyholder participation rights	
- Liability when an unconditional obligation to transfer	
economic benefits to policyholders Legally or equivalently compels	
A prior claim on distributions not enough by itself	
If no unconditional obligation exists, report as equity	
- Participating insurance and investment contracts same	-
treatment	
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Recent IASB discussions and tentative decisions	
Overview of current tentative decisions	
Other matters	
A control of the control	
•Acquisition costs	
Unit of account Risk margins	
Nisk margins Unbundling	
Unless so interdependent that any split is arbitrary	
2300 00 intordopondone that any opin to dibitrary	
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Industry response		
CFO Forum - Dev	velopment of the Elaborated Principles	
Collaborative and	 Reflects the insurance business model, including participating contracts 	
consultative process	Developed with due consideration of the IASB's goals	<u>-</u>
	 Carried out rigorous development process since September 2005 involving senior staff of all member organisations and consuming 	
	in excess of 430 man days. Sought to give rationale to the <i>Elaborated Principles</i> by providing a Basis for Conclusions	
	a Basis for Conclusions Detailed generic product level modeling to test impact	
	Adopted by CFO Forum and supported by CEA	
	Discussion with other industry groups – CRO Forum, GNAIE, LIAJ	
	 Ability of industry to speak with one voice having engaged in detailed and thorough debate 	-
Industry agreement	Anticipated benefits of industry agreement include:	
madely agreement	 Increased level of acceptance Increased quality of financial reporting 	
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Theomachicase expension and the second secon	Grad 17	·
Industry response]
CFO Forum propo	osal – a single model for life and non-life	
S. S. S. S. S. S. S.		
Reflect the insurance	repreparate reconstitution of exit and entry value	
business model	approach Nil gain or accounting loss at inception	
	Present value of future cash flows with allowance for	
Market consistent	risk and uncertainty	
valuation of liabilities	recognition of options and guarantees	
	Active assumption setting	
Reflect how	Liabilities measured on a portfolio basis reflecting policy-	
insurance companies manage risk	holder behaviour Assets and liabilities measured on a consistent basis 	
manago non	Unbundling is inappropriate Separate customer intangible asset	
IFRS Phase II: Sorting out Insurance	No reflection of the credit standing of the insurance entity.	
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Industry response		1
	s where convergence exists between IFRS	
Phase II and indu		
	te of future cash flows	
•	rs' behaviours are considered	
	measurement based on current values	
✓ Portfolio bas		
	scount rate appropriate to liability	
	a risk margin	
✓ No unbundli	ing	

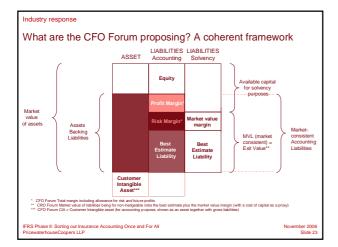
Industry response

Overview of areas where differences exist between IFRS Phase II and industry proposals

- Initial calibration Day 1 gain
- Credit standing
- Customer relationship asset
- Participating liabilities based on expected future payments
- ? Deposit floor not necessary

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Industry response

Overview of areas where convergence exists between IFRS Phase II and Insurance Regulators' proposals

- ✓ Best estimate of future cash flows
- ✓ Discounted at current market interest rates
- Explicit risk margin
- Options and guarantees are included
- Use of all other market inputs available
- Acquisition costs are expensed as incurred
- ✓ Potential Day 1 gains

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Industry response	
Overview of areas where differences exist between IFRS Phase	
Il and Insurance Regulators' proposals	
!! Discretionary bonuses of participating contracts	
!! Own credit standing	
O Hait of account beautiful and all and a state of a final based as	
? Unit of account based on portfolios of similar risks	
? Deposit floor not necessary	
? Margins	
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IFRS Phase II: Sorting out Insurance Accounting Once and For All	
Summary – Impact on life actuaries	
Risk margins	
- Conceptual basis and quantification	
Future Premiums	
- Identification of premiums that may be included	
Participating contracts	-
- Identification of enforceable obligations and valuation	
Consistency with ather many months	
Consistency with other measurement bases Solvency II and EEV	
- Golvenoy II and EEV	
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IFRS Phase II: Sorting out Insurance Accounting Once and For All	
Summary	
Getting the right answer matters	
Still a long road ahead	
- But formative discussions being held now	
- Don't take obvious things for granted	
Q1 07 Discussion paper will be relatively high-level	
 Profession need to consider how and to what extent it will respond 	
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