



# Financial Issues Impacting Insurance Companies

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## Themes

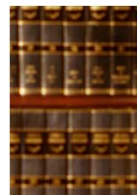
❖ Risk Focused  
Approach to a  
Complex Financial  
Environment





❖ “Higher Bar” for  
Governance –  
Oversight of Financial  
Matters



❖ Proliferation of Laws,  
Regulations and  
Standards









- ❖ Risk Based Capital (RBC)
- ❖ Risk Based Standards for External CPA Audit
- ❖ Risk Focused Regulatory Examination Process
- ❖ Elevation of Visibility and Accountability for System of Internal Control
- ❖ ERM
- ❖ NAIC - Own Risk and Solvency Assessment (ORSA)
- ❖ Solvency II (International)

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## Internal Control Over Financial Reporting




PCAOB  
Public Company Accounting Oversight Board

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## Internal Control


- ❖ Annual Financial Reporting Model Regulation (“Model Audit Rule” or “MAR”)
- ❖ >\$500 million in premium – required to file management’s assessment of internal control over financial reporting.




**National Association of  
Insurance Commissioners**



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## Risk Management and ORSA



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- ❖ Own Risk and Solvency Assessment (ORSA)
  - Section 1 – Description of Risk Management Policy
  - Section 2 – Quantitative Measurement in Normal and stressed
  - Section 3 – Prospective Solvency Assessment
- ❖ Not the same as ERM – but part of ERM
  - Enterprise risk + capital management + governance



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 Solvency II 

❖ Regulatory regime being implemented in Europe

- 3 Pillars
  1. Quantitative Capital
  2. Governance and Risk Management
  3. Disclosure and Transparency

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 Governance – Financial Oversight



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## Governance

- ❖ Annual Financial Reporting Model Regulation (“Model Audit Rule” or “MAR”)
- ❖ Sections 4-13: Annual Audit and Auditor
- ❖ Section 14: Governance



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## Model Audit Rule - Governance

- ❖ Requires insurance company to have an audit committee (or equivalent body)
  - Solely responsible for appointment, compensation and oversight of the company's auditor
  - \$300 - \$500 million in premium requires 50% of audit committee to be independent
  - >\$500 million in premium requires 75% of audit committee to be independent






## Governance – Board Committee Structure


- ❖ Committees
  - Executive
  - Audit
  - 3 Operating Cycles
    - Underwriting
    - Claims/Loss
    - Investment
  - Ad Hoc
- ❖ Charters


  
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## Proliferation of Laws, Regulations and Standards

- ❖ Insurance Specific Laws and Regs
  - NAIC – Model Audit Rule
  - NAIC – ORSA
- ❖ Federal Laws
- ❖ International Regulation
- ❖ Accounting Standards
  - Reactive to past problems
  - Global convergence
- ❖ Uncertainty in Future of the Direction of Accounting Standards


  
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## Accounting Standards



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**FINANCIAL ACCOUNTING STANDARDS BOARD**




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## Standards and Standards Setters

- ❖ SAP - Statutory Accounting Practices (also STAT or SSAP)
  - NAIC – National Association of Insurance Commissioners (US)
  - State of Domicile
- ❖ US GAAP - Generally Accepted Accounting Principles
  - FASB – Financial Accounting Standards Board
- ❖ IFRS - International Financial Reporting Standards
  - IASB – International Accounting Standards Board



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## US Historical Perspective

- ❖ 2001 – IASB Created
- ❖ 2002 – Norwalk Agreement between FASB and IASB – supported by SEC
- ❖ 2006 (updated in 2008) MoU – Memo of Understanding
- ❖ 2007 – SEC votes to accept IFRS without US reconciliation from foreign firms
- ❖ 2008 – SEC proposes IFRS Roadmap
- ❖ 2010 –
  - FASB issues convergence progress report
  - SEC calls for Work Plan





## US Perspective – Next Steps

- ❖ 2011 – now delayed
  - Complete convergence projects
  - Complete SEC Work Plan
  - SEC decides whether to incorporate IFRS into the US financial reporting system for US issuers
- ❖ 2015+ – Earliest date US entities would be required to report under IFRS



## IFRS and Statutory Accounting



- ❖ Freeze SAP
- ❖ US GAAP with STAT adjustments
- ❖ IFRS with STAT adjustments
- ❖ IFRS for public companies and IFRS/GAAP with STAT adjustments for private
- ❖ IFRS without adjustment





## Statutory Accounting

### ❖ Required for 2011

- SSAP 5R – *Liabilities Contingencies and Impairment of Assets*
- SSAP 35R – *Guaranty Fund and Other Assessments*

### ❖ Required for 2012

- SSAP No 100, *Fair Value*
- SSAP No 101, *Income Taxes*



## US GAAP Topics

### ❖ Required for 2011

- Fair Value Measurements (ASU 2010-06)


### ❖ Required for 2012

- Deferred Acquisition Costs (ASU 2010-26)
- Fair Value Measurement (ASU 2011-04)
- Intangibles – Goodwill and Other (ASU 2011-08)

### ❖ Required for 2013


- Comprehensive Income (ASU 2011-05)






## IFRS/US GAAP – *Insurance Contracts*

- ❖ IASB Exposure Draft (July 2010)
- ❖ FASB Discussion Paper *Preliminary Views on Insurance Contracts* (Sept 2010)
- ❖ Defines
  - **Insurance Contract** = Acceptance of significant **Insurance Risk**
  - **Insurance Risk** = A contract does not transfer insurance risk if there is no scenario where PV of cash outflows can exceed PV of premiums
- ❖ IASB and FASB are actively meeting and reviewing
  - IASB
    - June 2011 target release date
    - Implementation date 2013 or 2014?
  - FASB
    - Presumably next step would be an exposure draft




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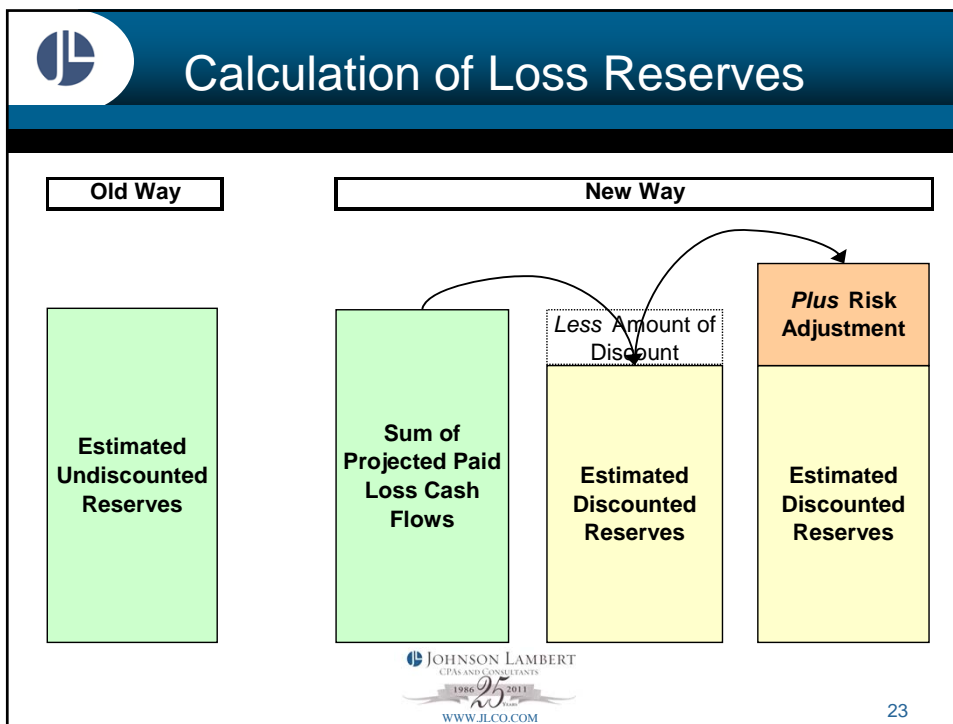


## Key Features

Feature	IASB Exposure Draft
Model- General Measurement Approach	A single model –Life, non-life, direct, reinsurance
Recognition	Consistent with financial instruments – when the insurer is bound by the terms of the contract or first exposed to risk
Unearned Premium (UEPR)	Premium Allocation Model applies for certain short-duration contracts
Measurement	Fulfillment value --Four building blocks
Acquisition Costs	Incremental acquisition costs recognized in the future cash flows; non-incremental acquisition costs recognized as expense when incurred



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# QUESTIONS & ANSWERS



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