NAMIC INTERNATIONAL REGULATION AND ACCOUNTING STANDARDS TASK FORCE

Insurer Accounting - Priorities and Principles

August 30, 2010

Substantive

Toward evaluation of IASB and FASB Insurance Contracts Projects, the National Association of Mutual Insurance Companies adopts the following principles that should guide creation of an accounting standard or standards for assessing insurer liabilities and related amounts.

1. We support the development of high quality global accounting standards.
    a. New standards need to be well tested under a variety of economic situations.
    b. An appropriate transition period should be allowed for implementation.
    c. The rationale for change should be clearly articulated.
    d. The current statutory accounting model works well and is broadly understood.
    e. Accounting standards should be adaptable to fit the U.S. economic, legal and regulatory structure
2. Accounting standards should result in measures that reflect the economic model used by the business.
    a. Separate accounting models should be used for Life vs. Non-life insurance contracts, as they represent significantly different products and economic features.
    b. A settlement value based on contract fulfillment with the customer rather than an exit price value should be used to measure insurance liabilities that are not traded in markets.
    c. Financial instruments intended to be held to maturity which support insurance liabilities should be allowed to be measured at amortized cost.
    d. Revenue, claims, and expenses and the resulting profit or loss should be recognized over the coverage period to match the provision of risk protection services.
    e. The accounting model should enable the use of appropriate metrics to measure performance and financial strength.
3. To the extent possible, the same accounting model should be used for both general purpose and regulatory financial reporting.
    a. The needs of all users of financial statements should be considered when developing standards. Investors should not be the sole focus of standard setters.
    b. Solvency measures should be adapted to general purpose financial reporting.
4. Accounting standards should be cost-effective to apply.
    a. Sophisticated actuarial measures (i.e. stochastic modeling) are not necessary for short duration liabilities and may not be possible for longer duration, non-life claim reserves.
    b. The application of discounting and risk margins to non-life claim reserves will not lead to decision useful information and are not cost justified.
    c. Accounting standards should be flexible to accommodate the needs and abilities of small companies.

Qualitative and Generalized Concerns

Toward reasonable consideration or adoption of any new accounting standard that will affect mutual property-casualty insurers, the National Association of Mutual Insurance Companies asserts the following concerns with respect to process and deliberation.

1. Change in accounting model, e. g., IASB Insurance Contracts Project, must be justified in terms of added value and transparency vs. cost and dislocation.
2. Simplicity is best; duplicative reporting requirements are unacceptable.
3. Any change should be incremental with transition carefully managed, unless other reasons overcome.
4. Exceptions or accommodations may be necessary for smaller insurers.