



NEWS RELEASE

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ALTERNATIVE ACCOUNTING METHODOLOGY TO ENHANCE ABILITY TO ANALYZE LIFE INSURANCE FINANCIAL RESULTS OUTLINED IN PAPER

ALTERNATIVE GAAP ISSUES EXPLORED BY GROUP OF U.S. INSURERS

NEW YORK, June 14 – The Group of North American Insurance Enterprises (GNAIE) today released a report analyzing issues surrounding an alternative accounting methodology intended to improve the ability of insurance regulators and investors to analyze life insurance financial results by product and to compare results among companies.

The new analysis, *Alternative GAAP Issues*, prepared by Watson Wyatt Insurance & Financial Services, Inc., identified seven key issues and describes alternative principles and methodologies which correspond to these issues, said GNAIE chairman Richard J. Carbone, chief financial officer of Prudential Financial. The analysis is available on the GNAIE web site, www.gnaie.net.

“GNAIE’s objective is to encourage discussion of alternative accounting methodologies as viable options for the valuation of insurance liabilities under International Accounting Standards,” said Carbone. GNAIE is the only trade association which focuses exclusively on solvency, financial reporting and accounting issues.

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He noted that the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board (FASB) currently are involved in Modified Joint Project to create a set of International Accounting Standards for insurance companies. The IASB's Insurance Working Group will be meeting in London next month to discuss life insurance accounting issues. Carbone is an industry representative on the Insurance Working Group.

The new report follows up on an earlier study, *Development of Alternative Accounting Methodology for Life Insurance and similar Products*, also prepared by Watson Wyatt. The two products provide a solid foundation for discussion of the development of new accounting standards that will enhance the value of financial statements to regulators, investors and other users, according to Carbone.

The methodology retains features of existing accounting standards which facilitate the measurement of the value of the company while introducing new features which would facilitate comparison between savings and protection products. The Alternative GAAP methodology uses a Net Reserve calculation, which is similar to a gross premium valuation.

The *Alternative GAAP Issues* paper analyzes issues identified in the first study and responds to them. They are:

- Determination and Application of Initialization Margins (IMs)
- Timing of the Review and Unlocking of Assumptions
- Determination and Application of Margins After Unlocking
- Impact of the Asset Valuation Method on Valuation Interest Rates
- The Applicability of a Cash Value Floor to the Establishment of Net Reserves
- Transition Rules for the Adoption of the Alternate Accounting Methodology
- Disclosure of Additional Financial Information to Supplement Financial Statements



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Watson Wyatt's analysis of the issues was performed under the direction of GNAIE. The products illustrated in the report are not intended to be representative of all products, but are representative of products where insurance cash flows are influenced to a different extent by changes in the investment environment or other experience factors.

The goal of GNAIE is to influence international accounting standards to assure that they result in high quality accounting standards for insurance companies and, to that end, to increase communication between insurers doing business in North America and the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board (FASB).

GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment and coordination with various end users of financial reports. Additional information can be found on the GNAIE website, www.gnaie.net.

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