



# NEWS RELEASE

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## **INTERNATIONAL ACCOUNTING PRINCIPLES FOR NON-LIFE INSURANCE PREPARED BY NORTH AMERICAN INSURERS**

*Set of Principles and Guidance to be Considered by IASB*

**NEW YORK, June 27, 2006** – A set of principles and guidance that would serve as the basis for preparing an international accounting standard for non-life insurance has been proposed by a group of leading North American insurance companies.

The 13 principles and guidance set forth in a new paper, “Extended Principles for Non-Life Insurance,” were developed by the Group of North American Insurance Enterprises (GNAIE) and will be submitted for consideration by the International Accounting Standards Board (IASB). The paper can be viewed on the GNAIE Web site, [www.insuranceaccounting.org](http://www.insuranceaccounting.org).

The IASB is now in the final discussion stages of drafting its discussion paper on accounting for insurance contracts.

“The set of non-life principles is the second of two papers produced by GNAIE, providing the basis for developing high quality international insurance accounting standards that reflect the unique features of insurance contracts and enhance the consistency and compatibility of insurance contracts to the benefit of capital markets,” said Richard J. Carbone, chairman of GNAIE, who is chief financial officer of Prudential Financial, Inc. “We believe both products are valuable contributions to achieving the ultimate goal of international convergence to high quality accounting standards for insurers.”

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The first paper, “An International Accounting Standard for Life Insurance,” was developed jointly by GNAIE and the leading life insurance companies in Japan.

The non-life principles recognize that fundamental differences between non-life and life insurance contracts make it inappropriate to apply a single uniform accounting model.

For example, the severe volatility of claim amounts is more uncertain for non-life relative to some life contracts. In addition, on an aggregate book of business, the level of uncertainty in timing of payments to insureds is more highly unpredictable in non-life contracts than in life. This is due to a variety of factors such as the effect of global claim settlements, catastrophic events and the legal environment.

The European CFO Forum has submitted a set of non-life principles which contain many similarities to the GNAIE proposal, but also significant differences.

In particular, the GNAIE principles would not permit the discounting of claim reserves. Under the GNAIE principles, non-life insurers would be required to hold the amount of reserves to their full value and not adjust them for each reporting period based on predictions of interest rates.

“Discounting post-claims liability is inappropriate due to the highly unpredictable payment patterns of most claims,” said the GNAIE paper. “By adding additional variables such as variable claim payment patterns and reinvestment rates which may be largely judgmental, the reliability of the post-claims liability might be compromised,” it continued. “Furthermore, the adequacy of the claims liability would become less transparent to users, investors and other third parties.”

The principles address an accounting model for non-life contracts that meets the definition of insurance for accounting purposes.

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The principles do not attempt to define either insurance or risk transfer considerations to determine whether or not a contract should be defined as insurance for accounting purposes. Nor does the paper address the unique characteristics of reinsurance contracts.

The 13 principles cover non-life products such as automobile insurance, property insurance, personal and business liability and coverages that typically are for a six to 12 month period and are contracts of indemnity.

- Principle 1: The total insurance liability for non-life contracts consists of two types of liabilities; the pre-claims liability and the post-claims liability.
- Principle 2: Both the pre-claims and post-claims liability must be sufficient to provide for payment of expected obligations.
- Principle 3: All measurements with respect to non-life insurance contracts should be based on a portfolio of exposures.
- Principle 4: On initial issue there should be no accounting gain or loss.
- Principle 5: Profit should be recognized in line with the release from risk.
- Principle 6: A customer intangible asset should be established when a policy (or block of policies) is issued, and amortized over time into earnings in relation to the coverage period as the insurer is released from risk.
- Principle 7: The post-claim liability should be based on the management's current best and unbiased estimates of future cash flows without an explicit margin for risk and uncertainty or discounting.
- Principle 8: For fixed, known and determinable liabilities (e.g. contracts that have highly predictable annuity-like payment patterns) discounting the expected cash flows is the appropriate measurement.
- Principle 9: Assumptions underlying the measurement of the post claim-liability and intangible assets should be periodically reviewed and changed, if appropriate.
- Principle 10: The measurement of claim liabilities should incorporate all related financial options and guarantees.

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- Principle 11: Policyholder behavior should be reflected in the measurement of all liabilities.
- Principle 12: The credit standing of a liability should not be considered in the valuation of insurance liabilities.
- Principle 13: Insurance policies with flexible premiums should only be unbundled in the event that the separation would result in material differences in the overall value of the contract and either
  - i) The deposit and insurance components of the contract are separately priced and separately managed by the insurer; or
  - ii) Separate measurement of a deposit component is necessary to recognize rights and obligations of the insurer and the policyholder.

GNAIE is the only trade association that focuses exclusively on financial reporting, accounting and solvency issues. The member companies of GNAIE are: ACE Ltd.; AIG, Inc.; The Allstate Corporation; GE Insurance Solutions; General Reinsurance; Genworth Financial, Inc; The Hartford; Metropolitan Life Insurance Company; New York Life Insurance Company; Prudential Financial, Inc.; and XL Capital, Ltd.

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