August 9, 2011

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Subject: Accounting for Short-duration Non-life Insurance Contracts

Over the past several months our members have participated in a variety of forums, roundtables, and other public and private discussions with investors, analysts, and financial statement preparers about the FASB-IASB Joint Project on Insurance Contracts. The consistent message we have received is that the current proposals, while well intentioned, do not meet the requirements for a global accounting standard and could have lasting negative effects on the global insurance industry.

We have consistently supported the development of a comprehensive high quality global accounting and financial reporting framework; one that includes insurance contracts. We believe a global accounting and reporting framework includes accounting standards that are capable of global implementation, attain a high degree of comparability for similar transactions, are understandable, and produce relevant information for investors and other stakeholders.

The consistent message we have received from investors, analysts, and preparers is that the existing proposals for Insurance Contracts, especially short-duration non-life contracts, are overly complex, incapable of consistent implementation, not reflective of the insurance business model, and not understandable to investors and other stakeholders. Moreover, investors caution that as a consequence of increased financial volatility and performance being less transparent, the global insurance industry would become less attractive as an investment and therefore the industry's cost of capital would rise. This would have detrimental impacts not only on the global insurance industry but also on the customers it serves, causing either higher prices or lack of availability of certain insurance products.

An unresolved central issue was discussed by the Boards at the July 21st meeting. That issue is whether there should be one unified model for both short-duration (typically non-life) insurance contracts and long-duration (typically life) insurance contracts, or alternatively, whether the contracts and business models are sufficiently different to warrant different accounting and reporting models.

Since the inception of the Insurance Contracts project, our members have consistently called for two separate models. We believe, as do investors, analysts, and preparers around the globe with whom we have spoken, that the underlying businesses are fundamentally different (see Appendix for further details) and to force short-duration and long-duration insurance contracts into a single model would produce information that is not comparable, understandable, decision-useful and would not reflect the attributes of a high quality global accounting standard.

In supporting a two model approach investors, analysts, and preparers consistently indicate that the model currently in use around most of the world for short-duration non-life contracts should be designated as the second model. This model has proven extremely reliable in the decades it has been in place, has already achieved global implementation, promotes comparability, is understandable and consistent with the business model of insurers who issue short-duration non-life insurance contracts. In short, it contains **all** the key attributes of a high quality global accounting standard.

We appreciate the boards' outreach activities and the opportunity to be included in the discussions related to the development of the insurance contracts standard. As the boards and staff continue their work on this important joint project we stand ready to assist in any capacity you believe will be helpful to the successful conclusion of the project in a manner that meets the needs and objectives of a global accounting framework.

Sincerely,

Group of North American Insurance Enterprises
National Association of Mutual Insurance Companies
Property Casualty Insurers Association of America

Appendix

I. Different Economics for Life and Property-Casualty Insurance

The IASB Chairman questioned whether investors view the economics of short-duration non-life insurance contracts and long-duration life insurance contracts as different or the same. Our involvement with the HUB Group and outreach to U.S. investors has revealed wide ranging support for the view that short-duration non-life insurance is a fundamentally different business than long-duration life insurance.

Specifically, the businesses are faced with different unknowns. For issuers of long-duration life insurance contracts, a principal unknown is how long the insured will live and the amount of premiums that will ultimately be received over the life of the contract as the continuation of future premiums (and coverage) during the insured's lifetime is at the discretion of the policyholder. In addition, an important source of cash flow variability is investment results. In contrast, for issuers of short-duration non-life insurance contracts, the principal unknown is the number and amount of claims that will be incurred and the principal source of cash flow variability is the frequency and severity of claims.

We have attached to this letter, the Business Model document developed by the HUB Group. The HUB Group Business Model document provides a comprehensive list of factors that distinguish the business practices, economics, and resulting key performance indicators for long-duration life insurance contracts and short-duration non-life insurance contracts. We believe that document clearly illustrates the fundamental differences between short-duration non-life insurance contracts and the need for separate measurement and reporting model; a request that is being made by investors around the world.

In addition, it is important to note that in the U.S., short-duration non-life insurance contracts and long-duration life insurance contracts are generally sold by different legal entities due to regulatory and licensing requirements. A result is that the various insurance entities are managed differently and covered by different analysts in the investment community.

II. Premium Allocation Approach – Eligibility Criteria

Identifying eligibility criteria for the premium allocation approach ("PAA") is a logical extension of evaluating the distinguishing characteristics of long-duration life insurance contracts and short-duration non-life insurance contracts.

We understand that some believe the differences between short-duration non-life insurance contracts and long-duration life insurance contracts are not sufficient to justify two different measurement models; that at the most general level both deal with uncertain cash flows. This group supports a single measurement model for all insurance contracts and considers the PAA as an approximation of the building blocks ("BBs") to be used only when the coverage period is very short.

In contrast, others, including the HUB Group and most investors and financial statement preparers in the U.S., believe the businesses associated with short-duration non-life insurance contracts and long-duration life insurance contracts are fundamentally different and warrant accounting measurement and reporting models that correspond with their unique characteristics.

FASB Staff, in developing eligibility criteria for a two model approach, identified the following:

- (a) compensation to the policyholder is based on the amount of the incurred insured loss which is typically variable up to the amount of the policy limit and not a specified amount (other than the limit) in any given contract;
- (b) the period of time between premium receipt and the date of loss is insignificant; and
- (c) the pricing of the premiums does not include risks relating to future renewal periods.

The Boards spent considerable time on July 21st debating both the general issue of whether short-duration non-life insurance contracts are sufficiently different from long-duration life insurance contracts as well as the eligibility criteria that should determine which contracts would be eligible for the PAA or other second model that may be developed.

We suggest that if the Boards have a desire to develop a more comprehensive list of distinguishing factors they could look to the HUB Business Model document which provides a comprehensive list of distinguishing characteristics, not all of which need be present to qualify for the use of the PAA or a second measurement model.

In addition, while we believe the FASB was very thoughtful and thorough in the development of PAA eligibility criteria, those criteria might be enhanced, based on our understanding of the discussion at the July 21st meeting, by substituting the first criteria with the following:

The amount of premiums/revenues over the expected or contractual life of the insurance contract are typically known (typically true for short-duration non-life insurance contracts¹).

[The preceding would contrast with long-duration life insurance contracts where the amount of premiums/revenues over the expected or contractual life of the insurance contract are typically unknown because it is not known when the insured will die, if the policy will lapse, or in the case of Universal Life premiums, their amount over time].

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This would not be true for single premium life and annuity contracts which we believe would not qualify for the PAA or second model as a result of failing the FASB's second criteria "the period of time between premium receipt and the date of loss is insignificant" – which could be true for an individual insurance contract but not a portfolio of insurance contracts.

We note that at the July 21st meeting, there was discussion about certain products that seemingly have ambiguous characteristics such as one year non-renewable term life insurance and contracts of surety that have more than one year (e.g., 3 year) terms. These contracts represent a very small fraction of the total insurance premiums written globally. Moreover, one year, non-renewable term life insurance is not a common offering in the U.S., nevertheless, we conceptually applied our proposed criteria to such a contract. In this example the amount of contractual premium would be known and therefore it may be possible to apply the PAA or Continuous Risk Reunderwriting Business Model ("CRR-BM") as described in the HUB Group Business Model proposal. The characteristics most important to determining the appropriate measurement model for this contract would include:

- Primary risk exposure to frequency and severity of claims² (because they are one year non-renewable contracts);
- Primary performance analytical tool experienced-based claims development³;
- Premiums single and fixed⁴;
- Insurance risks re-underwritten and re-priced annually or more frequently;
- Claims emerge quickly; and
- Profitability issues would be addressed through pricing of future contracts versus modified investment strategies (i.e., not practical to meaningfully affect returns by changing short-term investment strategies).

In the previous example, notwithstanding the fact that the contracts cover mortality risk, we believe that if they were designed and managed as described they could be appropriately measured and accounted for under the CRR-BM as set forth in the HUB Group Business Model proposal. We believe the same conclusion would be reached with respect to surety business, regardless of whether the coverage period is one, two, or three years. That is, the business would all be managed in the same manner and would be exposed to the same risks and therefore should be accounted for under the same accounting measurement and reporting model.

In contrast, if in the previous example the one-year term insurance policies were guaranteed renewable, then the characteristics would likely be different enough to cause an insurer to measure and account for the portfolio of contracts using the Integrated Investment Business Model ("II-BM") as proposed by the HUB Group. The inherent characteristics most important to determining the appropriate measurement model in that case would include:

- More granular asset-liability matching;
- Associated with long-duration contracts;
- Investment results a primary consideration;

² Severity of claims could pose an issue as the criteria is "frequency <u>and</u> severity" and the fact that claim severity is not an issue for life insurance where the amount of exposure is defined in the policy.

³ The primary analytical tool for tracking the performance of such a product would likely be "mortality experience" which is a simplified version of claim development.

⁴ We believe this would include the same situations as described in Footnote 5.

- Primary risk investment, mortality and morbidity experience;
- Primary performance analysis tools margin analysis for investments, mortality, morbidity, persistency and actual to expected experience measures;
- Discretionary premiums may continue over coverage period;
- Dollar amount of insurance coverage specified in contract;
- Risks not re-underwritten or re-priced annually or more frequently

The attractiveness of adding the preceding criteria is that it helps distinguish between short and long-duration contracts in a simple, objective manner that is relatively easy to apply and would address the exceptions discussed at the July 21st meeting.

III. Gross (i.e., Short-duration Non-life) or Net (Long-duration Life) Approach

During the course of discussion at the July 21st meeting a FASB Board member observed that the IASB's BB measurement model was developed to specifically address the attributes of long-duration life insurance contracts where the receipt of premiums from the policyholder is discretionary (although premiums must generally be paid for coverage continuation).

Because there is typically no "contractual right" to a fixed number, or dollar amount, of future premiums in long-duration life insurance contracts, the BB model utilizes a "net cash flow" approach that allows premiums to be estimated over the expected life of the contract; reduced by an estimate claims, expenses and acquisition costs. In addition, the cash flows are discounted and a risk margin is included to measure the variability of liability cash flows. The BB model does not, however, address the variability of asset (or investment) returns/cash flows which historically has been a primary cause of much of the risk for long-duration life insurance contracts.

We believe the previously mentioned FASB Board member raised a critical point worthy of further consideration. Specifically, the fundamental attributes of short-duration non-life insurance contracts can be distinguished from long-duration life insurance contracts in terms of the contract attributes that are known and unknown. To reiterate, for short-duration non-life insurance contracts the amount of premiums/revenues over the expected or contractual life of the insurance contract are generally *known*⁵ and therefore the measurement model should follow a *"gross approach"* (i.e., present unearned premiums gross and eligible deferred acquisition costs separately and recognize UPR and amortize DAC as insurance protection is provided over the term of the contract). The principal rationale is that actual gross amounts are superior to an estimate when available as the gross amounts represent reliable, transparent, understandable, decision-useful information for investors.

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This would include situations where the amount of premium is adjusted based on actual usage factors that are not known until the end of the coverage period. This would be typical in the commercial trucking industry where "actual miles driven" (which is the basis of coverage) are not known with certainty until the end of the coverage period or in certain workers compensation policies where audit premiums are common based on actual payroll.

In contrast, for contracts where the amount of premiums/revenues over the expected or contractual life of the insurance contract are <u>uncertain</u> the measurement model should follow what is described as a <u>"net approach"</u> (i.e., estimate the amount of premiums that will be earned over the expected life of the contract and reduce that estimate by the amount of acquisition costs incurred to acquire the contract and an estimate of claims). The principal rationale is that whenever gross amounts are not available, the accounting model should default to a net approach.



Application of business model to insurance contracts

Technical position of the HUB Group on Insurance Contracts

The following report on applying the "Application of the business model" framework to the accounting and reporting of insurance contracts reflects a proposal by the HUB global insurance group. This technical paper is being provided to members and staff of the IASB and FASB to assist them in understanding the proposal prior to the Insurance Working Group meeting on 24 March 2011.

This paper provides additional detail on applying the business model construct inherent in IFRS No. 9, *Financial Instruments* ("IFRS 9"), to the development of a measurement framework for insurance contracts as outlined in the HUB Group's Insurance Industry Proposal Discussion Paper dated 22 March 2011.

As with all our documents, comments from the public are welcome.

I. Objective

Develop a measurement and presentation framework for insurance contracts consistent with the Conceptual Framework for Financial Reporting ("CFFR"). The goal of the CFFR is to provide useful information to existing and potential investors about the amount, timing, and uncertainty of future cash flows which we believe is enhanced when the measurement and presentation of financial liabilities (including insurance contracts) faithfully represents a reporting entity's business model².

The importance of adopting a business model approach for the measurement and classification of insurance contracts is not only that it will provide measurements that most faithfully represent how the business is managed, but also that it is consistent with the guidance in IFRS recently adopted in IFRS 9.

II. Relevant Excerpts from IFRS 9 Re: Business Model

Appendix B of IFRS 9 (paragraph B4.1)......requires an entity to classify financial assets.....on the basis of the entity's business model for managing the financial assets. An entity assesses whether its financial assets meet this condition on the basis of the objective of the business model as determined by the entity's key management personnel.

Conceptual Framework QC4: If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Conceptual Framework OB2: The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

BC4.1 In IFRS 9......the Board aimed to help users to understand the financial reporting of financial assets by.....(c) aligning the measurement attribute of financial assets with the way the entity manages its financial assets ('business model') and their contractual cash flow characteristics, thus providing relevant and useful information to users for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

BC4.2 Board believes that IFRS 9 both helps users to understand and use the financial reporting of financial assets and eliminates much of the complexity in IAS 39.....IFRS 9 aligns the measurement attribute of financial assets with the way the entity manages its financial assets ('business model') and their contractual cash flow characteristics.

BC4.15 The Board concluded that an entity's business model affects the predictive quality of contractual cash flows—i.e., whether the likely actual cash flows will result primarily from the collection of contractual cash flows.

BC4.20 The Board noted that an entity's business model does not relate to a choice (i.e., it is not a voluntary designation) but rather it is a matter of fact that can be observed by the way an entity is managed and information is provided to its management.

III. Measurement and presentation of insurance contracts shall be based on the business model the insurer follows for managing its portfolios of insurance liabilities

The business model is typically developed around key profit drivers that provide investors and other stakeholders the most representationally faithful information about periodic business performance. Insurers' business models typically follow one of two basic approaches for managing insurance liabilities.

- 1. Integrated Insurance Business Model ("II-BM")
- 2. Continuous Risk Reunderwriting Business Model ("CRR-BM")

The determination of which basic business model an insurer follows should be based in part upon the following factors and characteristics:

The characteristics of the insurance contracts underwritten

1. II-BM

- Typically more granular asset-liability matching;
- > Typically associated with long-duration³ contracts;
- Investment results a primary consideration;
- Primary risk investment, mortality and morbidity experience;
- Primary performance analysis tools margin analysis for investments, mortality, and morbidity and actual to expected experience measures;
- Discretionary premiums may continue over coverage period;
- Dollar amount of insurance coverage specified in contract;

Insurance contracts classified as long-duration if expected to remain in force for extended period. Factors:

Contract generally not subject to unilateral changes, such as a non-cancellable or guaranteed renewable contract:

Contract requires performance of various functions and services (including insurance protection) for extended period.

Risks not re-underwritten or re-priced annually or more frequently

2. CRR-BM

- Typically only high level matching of asset and liability cash flows;
- Typically associated with short-duration⁴ contracts;
- Investment results a secondary consideration;
- Primary risk exposure to frequency and severity of claims (P&C and health);
- Primary performance analytical tool experienced-based claims development;
- Premiums typically single and fixed;
- Insurance risks re-underwritten and re-priced annually or more frequently;
- Claims typically emerge quickly for personal lines products and less so for business lines such as medical malpractice;
- Latent exposures not reliably estimable;
- Dollar amount of insurance risk variable up to policy limits;
- Contracts cancellable during coverage period with mandatory pro-rata refunds;
- Profitability issues typically addressed through pricing of future contracts versus modified investment strategies

All factors and characteristics need not be present; rather the predominate factors and characteristics shall support the designated business model.

- An insurer's business model, once adopted, is a matter of fact and not an arbitrary periodic selection.
 - Whether a life insurer measures and presents its insurance contracts and corresponding financial assets on a fulfillment value/FVNI, fulfillment value/FVOCI or locked-in/amortized cost basis, the business model is a function of how it underwrites, manages, and reports results consistent with its business model
 - Whether a property-casualty insurer measures and presents insurance contracts on an ultimate basis or discounted basis with explicit risk adjustments, the business model is a function of how it underwrites, manages, and reports results consistent with its business model
- > An insurer's business model designation would be subject to periodic audit verification.
- Reclassification between business models would be very rare, but allowed (with supporting disclosures regarding rationale) only when an insurer's business model changes.
- The level of aggregation in measurement and presentation shall be consistent with the insurer's business model.

Insurance contracts classified as short-duration if expected to remain in force for short period. Factors:

Contract provides insurance protection for a fixed period of short-duration;

Contract enables insurer to cancel the contract or to adjust provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided.

➤ Diversification benefits (and costs) shall be recognized across portfolios, if based on the insurer's business model, and if the insurer is legally and practically able to realize such benefits (and subject to such costs).

IV. Integrated Insurance Business Model

The II-BM approach (used primarily, but not exclusively, by life insurers) focuses on all cash flows of the business, including investment income on financial assets and the anticipated amount and timing of benefit payments.

- The II-BM is typical for insurers that issue long-duration insurance contracts in which the insurer accumulates over the life of the contracts significant asset portfolios used to meet the payment obligations on underlying portfolios of insurance contracts.
- The II-BM approach is consistent with a building blocks measurement approach (mean of discounted expected cash flows, with explicit risk adjustments); it is based on matching asset cash flows with corresponding liability cash flows over the life of portfolios of insurance contracts.
- Net investment income is a primary consideration in the II-BM. The interaction of the accounting models for insurance liabilities and financial assets (i.e., IFRS 9) should be coordinated to produce a meaningful reflection of the insurer's periodic performance.
- Primary business drivers include investment results, mortality/morbidity experience, and lapse experience. Primary business metrics include net interest margin, mortality margin, morbidity margin and surrender percentages. Primary analytical tools include relevant margin analysis and actual to expected experience ratios.
- The rate(s) used to discount expected future cash flows shall be consistent with the business model and shall be based on how insurance contracts are priced and managed in order to reflect the characteristics of the liabilities and how the liabilities are funded. **See HUB group** paper on establishing discount rates where discounting is employed.

V. Continuous Risk Reunderwriting Business Model

- 1. Ultimate Basis CRR-BM focuses on underwriting income (loss)
 - Components of underwriting income (loss) which are also primary business drivers include:
 - premiums received from policyholders;
 - claims and related claims expenses;
 - other expenses incurred

The above components are calculated on an undiscounted (i.e., ultimate basis) without explicit risk adjustments for the Ultimate Basis CRR-BM.

 Ultimate Basis CRR-BM is consistent with how most property-casualty insurers throughout the world underwrite, manage, and evaluate the performance of most short-duration property-casualty insurance contracts, for which success is heavily dependent on close monitoring of underwriting results. For these insurers,

investment income, while important, is a secondary consideration and not a component of underwriting income.

- Ultimate Basis CRR-BM has the benefit of being proven reliable over time throughout a variety of business environments, business cycles, and across diverse geographies.
- Measuring claims and claims expense on an ultimate basis in the CRR-BM allows investors and other financial statement users to evaluate the adequacy of claim and claim expense reserves through reconciliation with paid and incurred regulatory claim development data (currently available in certain geographic jurisdictions and would be a required disclosure under a new standard)
- Primary business metrics include underwriting income (loss), claims ratio, expense ratio, and combined ratio. These ratios can be, and are, applied at a very granular level in managing the business of a property-casualty insurer (the same would not typically be true for discounted information as the discounting would be applied at a more summarized level). Primary analytical tools include appropriately prepared claims development tables and claim, expense, and combined ratios over time.

2. Discounted Basis CRR-BM focuses on underwriting income (loss).

Components are the same as the Ultimate Basis CRR-BM, but are measured and presented on a discounted basis, typically together with explicit risk adjustments.

The adequacy of claim and claim expense reserves can be evaluated through application of the discounted basis CRR-BM, the most prominent element of which is claim and claim expense reserves presented on a discounted basis typically together with explicit risk adjustments.

- Insurers that follow the discounted basis CRR-BM shall provide investors and other financial statement users sufficient disclosure, including historical comparative information where necessary, to support the discounting and explicit risk adjustments included in claim and claim expense reserves;
- Where discounting is employed in the CRR-BM the impact of discounting shall be deferred and recognized over the combined coverage and settlement period as more fully described in the HUB group paper on the discounting of propertycasualty insurance contracts.
- 3. Under the CRR-BM invested assets are typically managed more around overall entity liquidity needs than a granular matching of financial asset cash flows to liability cash flows.

The selection of the most appropriate measurement alternative for financial assets will depend upon both the extent of matching financial asset and insurance liability cash flows by the insurer, balanced with the needs of investors and other financial statement users.

Most property-casualty insurers do not employ granular asset-liability management programs but rather manage asset portfolios to maintain sufficient liquidity to meet contractual obligations to policyholders as they come due which may require measuring assets under IFRS 9 on a fair value through net income basis. If the IASB follows our suggestions and re-opens IFRS 9 to return the fair

value through other comprehensive income category currently residing in IFRS 39 but was eliminated from IFRS 9, we believe many insurers would choose that category to account for financial assets.

VI. Business Model – Permitted Measurement Applications

II-BM – Insurer selects one of the following three applications that is most consistent with its business model and that also reduces accounting mismatches

- Fulfillment Value (Insurance Contracts)/Fair Value Net Income for Assets
 - Impact of changing interest rates on assets reflected in profit and loss ("P&L"). Similarly, changes in top down interest rate and other assumption changes reflected in P&L.
- Fulfillment Value (Insurance Contracts)/Fair Value Other Comprehensive Income (Assets)
 - Impact of changing interest rates on assets reflected in other comprehensive income ("OCI"). Similarly, changes in top down interest rate reflected in OCI and other assumption changes reflected in P&L.
- Locked-in (Insurance Contracts)/Amortized Cost (Assets)
 - As an alternative to fulfillment value/FVOCI, assets measured at amortized cost and insurance contracts at fulfillment value with interest rates locked-in at inception.

CRR- BM — Insurer selects one of the following two applications that is most consistent with its underwriting, management, and performance reporting.

Ultimate Basis CRR-BM

- Record premiums, claims and claims expenses, and other expenses on an ultimate basis (i.e., undiscounted), without explicit risk adjustments, consistent with the underwriting, management, and performance reporting of the insurer.
 - No discounting or explicit risk adjustments in pre-claim or post-claim periods
 - All insurance contract revenue earned over the policy coverage period which coincides with the period over which insurance protection is provided. There is no insurance protection risk beyond the coverage provided, only adverse claim development risk.

Discounted Basis CRR-BM

- Record premiums, claims and claims expenses, and other expenses on a current fulfillment basis (i.e., discounted and with an explicit risk adjustment) consistent with the underwriting, management, and performance reporting of the insurer.
- > The effect of discounting would be deferred and recognized over the combined coverage and settlement period. See HUB group paper on discounting P&C contracts for a more comprehensive discussion of this topic.

For both "Ultimate Basis" and "Discounted Basis" CRR-BM, there would be (a) continuous remeasurement of claim reserves and (b) accompanying loss development tables prepared on an appropriate basis to allow reconciliations between recorded and paid reserves on a continuous basis.

VII. Presentation

The basis of presentation shall be consistent with the insurer's business model, could be based on premiums or margins, and should be supplemented by disclosure.

Conceptual Framework for Financial Reporting

To Provide Useful Information to Existing and Potential Investors, Measurement and Presentation of Insurance Contracts shall be Consistent with Insurer's Business Model

Integrated Insurance BM

Distinguishing Characteristics:

Typically long-duration

Two Distinct

Business

Models (II-BM

& CRR-BM")

for Insurance

Contract Portfolios

with Five

Permitted

Applications

[Three II-BM Applications & Two

CRR-BM

Applications]

- Mortality/morbidity coverage specified
- Risks not re-underwritten or re-priced
- Investment results, mortality and lapse experience key business metric
- Primary analytical tools margin analyses for investments, morality and morbidity

Select application consistent with BM that reduces accounting mismatches

Fulfillment Value/FVNI

Changing interest rates reflected in P&L. Change in top down interest rate and other assumptions changes reflected in P&L

Fulfillment Value/FVOCI

Changing interest rates reflected in OCI.
Change in top down interest rate reflected in OCI, other assumption changes in P&L

Locked-in/Amortized Cost
As an alternative to fulfillment
value/FVOCI; assets at amortized cost
and insurance contracts at fulfillment
value with locked-in interest rate

Continuous Risk Re-underwriting BM

Distinguishing Characteristics:

- Typically short-duration
- Insurance risk variable up to policy limits
- Risks re-underwritten and re-priced annually
- Primary risk exposure to claims
- Primary performance analytical tool claim development table
- Cancellable contracts with pro-rata refunds

Select application consistent with underwriting, management, and performance reporting

Ultimate Basis – CRR-BM

Business managed on an undiscounted basis with no explicit risk adjustments

Discounted Basis - CRR-BM

Business managed on discounted basis with explicit risk adjustments