



**IASB/FASB Meeting
Week beginning 16 May 2011**

IASB Agenda
reference

3F appendix B

Staff Paper

FASB Agenda
reference

68F appendix B

Project

Insurance contracts

Topic

Composite Margin – Profit Realization

Purpose of this paper

1. This document serves as an Appendix to agenda paper 3F/68F.

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Appendix B – 10 year development table and footnote disclosure examples

The following Loss Reserve Reestimates table illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of the last eleven calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year which is the result of expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable. The Loss Reserve Reestimates table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve reestimates are shown in this table in parentheses.

(\$ in millions)	Loss Reserve Reestimates										
	December 31,										
	2000 & prior	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross reserves for unpaid claims and claims Expense	\$ 16,859	\$ 16,500	\$ 16,690	\$ 17,714	\$ 19,338	\$ 22,117	\$ 18,866	\$ 18,865	\$ 19,456	\$ 19,167	\$ 19,468
Reinsurance recoverable	1,634	1,667	1,672	1,734	2,577	3,186	2,256	2,205	2,274	2,139	2,072
Reserve for unpaid claims and claims expense	15,225	14,833	15,018	15,980	16,761	18,931	16,610	16,660	17,182	17,028	17,396
Paid (cumulative) as of:											
One year later	6,748	6,874	6,275	6,073	6,665	7,952	6,684	6,884	6,995	6,571	
Two years later	10,066	9,931	9,241	9,098	9,587	11,293	9,957	9,852	10,069		
Three years later	11,889	11,730	11,165	10,936	11,455	13,431	11,837	11,761			
Four years later	12,967	12,949	12,304	12,088	12,678	14,608	12,990				
Five years later	13,768	13,648	13,032	12,866	13,374	15,325					
Six years later	14,255	14,135	13,583	13,326	13,866						
Seven years later	14,617	14,558	13,928	13,703							
Eight years later	14,945	14,829	14,243								
Nine years later	15,157	15,099									
Ten years later	15,402										
Reserve reestimated as of:											
End of year	15,225	14,833	15,018	15,980	16,761	18,931	16,610	16,660	17,182	17,028	17,396
One year later	15,567	15,518	15,419	15,750	16,293	17,960	16,438	16,830	17,070	16,869	
Two years later	15,900	16,175	15,757	15,677	16,033	17,876	16,633	17,174	17,035		
Three years later	16,625	16,696	15,949	15,721	16,213	18,162	17,135	17,185			
Four years later	17,249	16,937	16,051	15,915	16,337	18,805	17,238				
Five years later	17,501	17,041	16,234	16,027	16,895	19,014					
Six years later	17,633	17,207	16,351	16,496	17,149						

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Seven years later	17,804	17,321	16,778	16,763						
Eight years later	17,885	17,701	17,062							
Nine years later	18,205	17,991								
Ten years later	18,495									
Initial reserve in excess of (less than) reestimated reserve:										
Amount of reestimate	(3,270)	(3,158)	(2,044)	(783)	(388)	(83)	(628)	(525)	147	159
Percent	(21.5)%	(21.3)%	(13.6)%	(4.9)%	(2.3)%	(0.4)%	(3.8)%	(3.2)%	0.9%	0.9%
Gross reestimated liability-latest	21,861	21,334	20,391	19,910	20,542	22,838	19,963	19,756	19,526	19,062
Reestimated recoverable-latest	3,366	3,343	3,329	3,147	3,393	3,824	2,725	2,571	2,491	2,193
Net reestimated liability-latest	<u>18,495</u>	<u>17,991</u>	<u>17,062</u>	<u>16,763</u>	<u>17,149</u>	<u>19,014</u>	<u>17,238</u>	<u>17,185</u>	<u>17,035</u>	<u>16,869</u>
Gross cumulative reestimate (increase) decrease	<u>\$ (5,002)</u>	<u>\$ (4,834)</u>	<u>\$ (3,701)</u>	<u>\$ (2,196)</u>	<u>\$ (1,204)</u>	<u>\$ (721)</u>	<u>\$ (1,097)</u>	<u>\$ (891)</u>	<u>\$ (70)</u>	<u>\$ 105</u>

(\$ in millions)

Effect of net reserve reestimates on
calendar year operations

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
BY ACCIDENT YEAR											
2000 & prior	\$ 342	\$ 333	\$ 725	\$ 624	\$ 252	\$ 132	\$ 171	\$ 80	\$ 320	\$ 291	\$ 3,270
2001		352	(68)	(103)	(11)	(28)	(5)	33	59	(1)	228
2002			(256)	(183)	(49)	(2)	18	3	47	(6)	(428)
2003				(568)	(265)	(58)	11	(4)	43	(17)	(858)
2004					(395)	(304)	(14)	12	90	(13)	(624)
2005						(711)	(264)	162	84	(45)	(774)
2006							(89)	(91)	(141)	(106)	(427)
2007								(25)	(158)	(92)	(275)
2008									(456)	(46)	(502)
2009										(124)	(124)
TOTAL	<u>\$ 342</u>	<u>\$ 685</u>	<u>\$ 401</u>	<u>\$ (230)</u>	<u>\$ (468)</u>	<u>\$ (971)</u>	<u>\$ (172)</u>	<u>\$ 170</u>	<u>\$ (112)</u>	<u>\$ (159)</u>	<u>\$ (514)</u>

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US GAAP required footnote disclosure

Reserve for Property-Liability Insurance Claims and Claims Expense

As described in Note 2, the Company establishes reserves for claims and claims expense ("loss") on reported and unreported claims of insured losses. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported ("IBNR") losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property-liability insurance claims and claims expense in the Consolidated Statements of Operations in the period such changes are determined.

Activity in the reserve for property-liability insurance claims and claims expense is summarized as follows:

(\$ in millions)	2010	2009	2008
Balance as of January 1	\$ 19,167	\$ 19,456	\$ 18,865
Less reinsurance recoverables	2,139	2,274	2,205
Net balance as of January 1	<u>17,028</u>	<u>17,182</u>	<u>16,660</u>
Incurred claims and claims expense related to:			
Current year	19,110	18,858	19,894
Prior years	(159)	(112)	170
Total incurred	<u>18,951</u>	<u>18,746</u>	<u>20,064</u>
Claims and claims expense paid related to:			
Current year	12,012	11,905	12,658

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Prior years	6,571	6,995	6,884
Total paid	<u>18,583</u>	<u>18,900</u>	<u>19,542</u>
Net balance as of December 31	<u>17,396</u>	<u>17,028</u>	<u>17,182</u>
Plus reinsurance recoverables	2,072	2,139	2,274
Balance as of December 31	<u>\$ 19,468</u>	<u>\$ 19,167</u>	<u>\$ 19,456</u>

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