

Appendix B

Summary of National Practice

This appendix is based on replies to a questionnaire sent to insurance professionals in the countries concerned. The responses were compiled in mid 1998 and have been subject to limited updating since then. The appendix summarises national practices in the following countries:

- Australia (AUS)
- Brazil (BRA)
- Canada (CDN)
- France (F)
- Germany (GER)
- Indonesia (INS)
- Italy (I)
- Japan (JPN)
- Korea (KOR)
- Mexico (MEX)
- Netherlands (NL)
- South Africa (SAF)
- Spain (ESP)
- Sweden (SWE)
- Switzerland (SUI)
- United Kingdom (UK)
- United States (USA)

Note: The Korean Accounting Standards are currently subject to revision. Thus, there may be material changes in the Korean Accounting Standards in the near future.

GENERAL QUESTIONS

1. What agency establishes standards for general-purpose (external reporting to shareholders or other users) financial statements of insurance enterprises?

- ⇒ **An independent standard-setter or body affiliated with the accounting profession. (If so, please identify the relevant standards that focus on insurance enterprises or insurance company products.)**
- ⇒ **A government insurance or financial institution regulator charged with monitoring the solvency of insurance companies or protecting consumers.**
- ⇒ **Some other organization or combination of the two. (Please describe.)**

AUSTRALIA: Australian Accounting Standards Board (AASB), a statutory authority of the Commonwealth government. Its research support is provided by the Australian Accounting Research Foundation (AARF), which is partly funded by the accounting profession.

BRAZIL: The Superintendencia de Seguros Privados - SUSEP (Private Insurance Superintendency) establishes specific accounting rules and standards for general purpose financial statements of insurance companies. SUSEP is a government insurance regulator charged with monitoring the solvency of insurance companies and protecting consumers. Comissão de Valores Mobiliários (CVM), the Brazilian SEC, also establishes certain accounting rules for public insurance companies.

CANADA: The Accounting Standards Board (AcSB) establishes accounting standards. The Federal Office of the Superintendent of Financial Institutions (OSFI) may require specific accounting practices for insurance undertakings, which override the Canadian GAAP of the AcSB.

FRANCE: The standards for general purpose financial statements of insurance enterprises are established by the “Conseil National de la Comptabilité” (the French accounting standard setter) and approved by the “Comité de la réglementation comptable”. The “Comité de la réglementation des assurances” (insurance regulation committee) has to put forward a previous opinion. The standards are the same for different kinds of enterprises (commercial, mutuals, non profit institutions) and are included in the “Code des Assurances” (insurance code).

GERMANY: Standards for general-purpose financial statements of insurance enterprises are established by the Government (Ministry of Justice). Recently a privately organised standard setting body has been established, that is aiming to consult the Ministry of Justice in questions of standard setting for group accounting.

INDONESIA:	The Indonesian Institute of Accountants (IAI) is responsible for issuing accounting standards for insurance companies. In Indonesia there are two accounting standards for insurance, namely Statement of Financial Accounting Standards (PSAK) No. 28 for general insurance and PSAK No. 36 for life insurance.
ITALY:	<p>A government insurance or financial institution regulator charged with monitoring the solvency of insurance companies or protecting consumers.</p> <p>Standards for general-purpose financial statements of insurance enterprises are established by the Supervisory Body (Authority) for insurance companies (ISVAP) that is also charged with monitoring the solvency of insurance companies and protecting consumers. The major change in standards for general-purpose financial statements is coming with the implementation of the European Insurance Accounts Directive with effect from December 1998.</p>
JAPAN:	The Financial Supervisory Agency is charged with monitoring the solvency of insurance companies and protecting consumers and it establishes standards.
KOREA:	Insurance standards for general-purpose financial statements of insurance enterprises are established by the Insurance Supervisory Board (ISB) charged with monitoring the solvency of insurance companies or protecting consumers.
MEXICO:	The Ministry of Finance and Public Credit through the National Insurance and Bonding Commission (“the Commission”). The General Law of Insurance Institutions and Mutual Insurance Companies outlines information disclosure guidelines and also designates the Commission as regulation and supervision entity, whose powers include defining the particular manner (through official letters or circulars) for the disclosure and presentation of financial information.
NETHERLANDS:	<p>The statutory provisions relating to the annual accounts of (re)insurance companies are set forth in the Netherlands Civil Code and in a number of implementing decrees, including the Annual Accounts Formats Decree, the Asset Valuation Decree and the Insurance Industry Technical Provisions Decree 1994.</p> <p>The draft guideline for annual reporting by insurance companies, which further details the practical implications of the above mentioned law and decrees, has been established by the Council for Annual Reporting. This body includes representatives of the government, accounting profession as well as the industry. Guidelines are not mandatory but companies should have a sound reason for not applying them.</p>

SOUTH AFRICA:	The Accounting Practices Committee (APC) of the South African Institute of Chartered Accountants establishes accounting standards. The Institute has set up a short term insurance interest group which has been tasked to develop a new standard for accounting for short term insurance companies. Currently there is only a guideline (AC207) dealing with accounting practices of short term insurance companies. Accounting practices of long term insurers are guided by AC121. The Financial Services Board (FSB) monitors the solvency of insurers.
SPAIN:	A Government body. The Spanish Ministry of Economy and Finance is responsible for establishing standards for insurance entities, although it consults with various bodies in the process, including the Spanish Institute of Accounting and Auditing and the Insurance Consultative Board on which the various components of the sector are represented.
SWEDEN:	Basic accounting rules are given in a special accounting law for insurance enterprises, mainly implementing central parts of the EU Insurance Accounts Directive. The Financial Supervisory Authority has the power to issue binding regulations for insurance companies. Those regulations implement remaining parts of the EU Insurance Accounts Directive. A private standard setting body, the Redovisningsrådet (Swedish Financial Accounting Standards Council) has issued accounting standards that are applicable also for insurance companies.
SWITZERLAND:	The standards for financial statements of insurance companies do not differ from the other industries apart from very few, negligible exceptions.
UK:	An independent standard-setting body, the Accounting Standards Boards, produces accounting standards for the generality of companies. The Association of British Insurers has produced a Statement of Recommended Practice for accounting for insurance business.
USA:	Financial Accounting Standards Board (FASB) American Institute of Certified Public Accountants (AICPA) Emerging Issues Task Force (EITF) Securities and Exchange Commission (SEC)

2. Do insurance enterprises prepare different reports for regulators than they do for other users?

AUSTRALIA:	General insurers report more detail to the Australian Prudential Regulation Authority, but the reports are reconcilable to general purpose financial reports. For example, they provide claims development disclosures by product line to the regulator. Life insurers prepare general purpose financial reports under the Corporations Law and Accounting Standards. Their reports to the
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Australian Prudential Regulation Authority are based on rules set by the Authority and a Life Insurance Actuarial Standards Board (LIASB). In practice, one report can satisfy both sets of rules, subject to showing a reconciliation of the different treatments of bonuses on participating business.

- BRAZIL:** No. Reports for SUSEP are the same as for other users. There are some detailed reports only for SUSEP, but the accounting standards applied are the same.
- CANADA:** Yes. Insurance enterprises carrying on business in Canada prepare various financial reports for regulators. Some of these reports incorporate the audited general purpose financial statements provided to shareholders, policyholders and other external parties (or, in the case of a foreign enterprise's branch operations in Canada, audited branch financial statements). Some reports require information drawn from the general purpose financial statements but containing specific departures from GAAP or requiring specific bases of presentation or disclosure that may not correspond to the bases adopted in an enterprise's general purpose financial statements (e.g., unconsolidated financial statements in addition to, or in place of, consolidated financial statements).
- The regulatory reports contain supplementary financial information required by the regulator. Some of this supplementary information constitutes detailed breakdowns of financial statement balances and statistical data concerning an insurer's operations and financial position. Some of the information provided to the regulator is intended to permit it to assess, for example, the adequacy of capital to sustain operations or the extent of adherence to sound business practices.
- FRANCE:** The annual report of the French insurance enterprises, established for general purposes, to the "Commission de Contrôle" includes financial statements and detailed statements established for specific purposes.
- GERMANY:** Insurance enterprises prepare different reports for regulators than for other users.
- INDONESIA:** Yes. Reports for insurance regulators are based on the decrees of the Ministry of Finance and Insurance Laws and Regulations of the Republic of Indonesia.
- ITALY:** No. The major reports for regulators are same as those for other users. In addition, returns should be submitted with more detail on claims, technical reserves, reinsurance, etc.
- JAPAN:** No. The major reports for regulators are same as for other users. There are some detailed reports for regulators, but the accounting standards applied are the same.

KOREA:	Insurance enterprises prepare different reports for regulators than for other users. These reports are prepared on a detailed basis every five days, per month, and per year, but the same accounting standards are applied.
MEXICO:	Insurers prepare different reports for regulators than for other users.
NETHERLANDS:	The formats of the returns to the Insurance Supervisory Board are virtually identical to the formats for the annual accounts. Different accounting policies could be applied at the discretion of the company. In addition, returns should be submitted with more detail on claims, technical reserves, solvency etc.
SOUTH AFRICA:	Short term insurers report more detailed information to the FSB but the reports are reconcilable to annual financial statements. Life insurers also report more detailed information to the FSB but the requirements are currently much less detailed than for the short term insurers. This will change in the near future under a new Insurance Act.
SPAIN:	In addition to their annual accounts, insurance entities are also required to submit regular reports to the Spanish Insurance Regulatory Authority. These reports must be prepared at least annually, although quarterly returns may be required depending on the lines of business and the volume of premiums. These reports are prepared under the same accounting principles as those used for the annual accounts, the objective being to provide details of certain balance sheet items (e.g. real estate and financial assets) and information on the development of claims provisions, solvency margin, assets covering technical provisions and other matters.
SWEDEN:	Yes. Reports to supervisors are more frequent and also often more detailed, and not always with the same valuation rules.
SWITZERLAND:	Yes, on an annual quarterly basis.
UK:	Yes. Reports to supervisors are based on specified forms and valuation rules which may differ from those used for general purpose financial statements. For general insurance business, the valuation of liabilities is in accordance with accounting rules adopted for financial statements. For life business, the valuation rules in the regulatory returns are generally more prudent than those adopted for financial statements.
USA:	An insurance enterprise files an annual statement with insurance departments of each state in which it does business. The format is prescribed by the National Association of Insurance Commissioners (NAIC). Each state has adopted laws to govern the insurance industry and the accounting from the statutes and regulations are referred to as statutory accounting principles. The current prescribed or permitted statutory accounting model results in practices that may vary not only

from state to state, but also for insurance entities within a state. Recently, the NAIC approved the Codification of Statutory Accounting Principles. The purpose of the codification project was to provide a single uniform accounting standard that would facilitate analysis of annual statements filed by insurers and provide a source of reference for insurance practitioners. The NAIC is encouraging the states to adopt the Codification.

3. Regulatory reporting regimes differ considerably among countries. Please describe your situation.

- ⇒ **Regulators make selected adjustments to GAAP financial statements in developing solvency measures.**
- ⇒ **Regulators have a comprehensive set of accounting rules that differ from GAAP for noninsurance entities.**

AUSTRALIA:	The Authority issues Rules for both general insurers and life insurers, the LIASB issues actuarial standards for life insurers and the AASB issues accounting standards that cover both general insurers and life insurers. The Authority's Rules have an industry focus and the LIASB rules have an actuarial focus and both relate to solvency returns. The AASB standards relate to general purpose financial reporting. AASB 1038 and the Authority/ LIASB Rules for life insurers can be satisfied by one set of financial reports, subject to reconciliation of the treatment of bonuses on participating business.
BRAZIL:	SUSEP has established a comprehensive set of accounting rules that differ in some aspects from GAAP for noninsurance entities.
CANADA:	Both. The Canadian regulators require selected adjustments to certain GAAP financial statement items in regulatory reports, but also require some additional solvency measures based on principles that differ substantially from GAAP.
FRANCE:	<p>French insurance enterprises have to apply specific accounting rules in their general purpose financial statements (which are recognised without adjustment by regulators) for:</p> <ul style="list-style-type: none"> • technical reserves • assets held for insurance purposes: valuation and classification • foreign currency operations • form and display of the financial statements. <p>For non insurance items, French GAAP has to be applied.</p>
GERMANY:	Insurance enterprises provide regulators with additional disclosures according to patterns imposed by the Supervisory Authorities.
INDONESIA:	For solvency measures, regulators make selected adjustments to GAAP financial statements.

ITALY:	Regulators make selected adjustments to GAAP financial statements for solvency measures and, generally, in accordance with European Insurance Directives.
JAPAN:	Standards for general-purpose financial statements of insurance enterprises are based on GAAP under the conservative statutory accounting method which is based on Insurance Business Law which is similar to Commercial Code Accounting. GAAP and Statutory based accounting principles are harmonised and they are not considered separate standards in Japan.
KOREA:	Regulators make selected adjustments to GAAP financial statements in developing solvency measures and have a set of accounting rules that differ from GAAP for non-insurance entities. Insurance accounting rules are outlined in the Insurance Supervisory Regulation. If not stated in the regulation, insurance enterprises should follow GAAP.
MEXICO:	The Commission regulates the accounting aspects of insurance enterprises through circulars. However, there are many transactions for which accounting treatment is not clearly defined.
NETHERLANDS:	The solvency returns include selected adjustments to GAAP financial statements in determining available solvency. These adjustments relate amongst others to the inadmissability of intangible assets and/or the admissability of certain surpluses if agreed with the Insurance Supervisory Board. Solvency requirements are based on technical reserves (Life) or premiums/claims (General), taking into account minimum solvency requirements as set out in European Directives.
SOUTH AFRICA:	The regulators require short term insurers to include the following reserves in reports to the FSB:

	Report to regulator	GAAP
Unearned premium reserve	Has to be calculated on the 1/24 th method (under the proposed new Act this will be 1/365ths)	No preferred method
	Only approved reinsurance may be deducted	All reinsurance may be deducted
IBNR	Sets requirement for minimum level of IBNR	Does not state minimum level
Contingency reserve	Required by statute and has to be included in report	Not required in terms of GAAP

Also, the regulator disallows certain assets for solvency margin purposes (eg. Prepaid expenses, premium outstanding for more than 90 days).

There are currently no differences between accounting rules for regulator and GAAP for life assurers.

SPAIN:	The accounting principles used in the annual accounts are the same as those applied for reporting to the Insurance Regulatory Authority. Specific and detailed accounting regulations exist for the insurance sector, which differ in some respects from the standards applicable to non-insurance companies, largely in order to ensure solvency. Nevertheless, the basic principles applicable to insurance and non-insurance companies are similar.
SWEDEN:	Regulators make selected adjustments to GAAP financial statements for solvency measures.
SWITZERLAND:	For the purpose of the definition and meeting of solvency requirements, the supervisory authority makes selected adjustments for the “Sicherungsfonds”.
UK:	Regulators make selected adjustments to GAAP financial statements for solvency measures. Adjustments are made to reflect different valuation rules for assets and liabilities.
USA:	Regulators have a set of statutory accounting principles and actuarial guidelines that differ from GAAP and focus on solvency.

4. For countries in which insurance regulators have their own set of accounting rules, do those rules cover:

⇒ Financial statement format and display?

YES:	AUS, BRA, CDN, ESP, F, GER, I, JPN, KOR, MEX, SWE, UK, USA
NO:	SAF
N/A:	INS, NL, SUI

⇒ Recognition and nonrecognition of certain assets and liabilities?

YES:	AUS, BRA, CDN, F, JPN, MEX, SAF, UK, USA
NO:	ESP, GER, I, KOR, SWE
N/A:	INS, NL, SUI

⇒ **Measurement of noninsurance assets and liabilities?**

YES: BRA, CDN, F, JPN, KOR, MEX, UK, USA

NO: AUS, ESP, GER, I, SAF, SWE

N/A: INS, NL, SUI

⇒ **Measurement of insurance liabilities?**

YES: AUS, BRA, CDN, ESP, F, I, JPN, KOR, SAF, UK, USA

NO: GER, MEX, SWE

N/A: INS, NL, SUI

5. Briefly describe the relative roles and responsibilities of actuaries and accountants in measuring insurance liabilities.

AUSTRALIA: The directors preparing the financial statements have a legal obligation to follow AASB 1023 (for general insurance) and AASB 1038 (for life insurance). AASB 1023 and AASB 1038 include broad requirements for recognising, measuring and disclosing policy liabilities. The general insurer is under no obligation to use an actuary in measuring the policy liability, however, for long-tail business it would be difficult to conform with AASB 1023 without using an actuary. Life insurers are required to have an “appointed actuary” who is responsible for measuring policy liabilities and recommending to the directors the amount that is recognised in the solvency reports. Due to the commitment to compatibility, this amount would also affect the general purpose financial report.

BRAZIL: A qualified actuary appointed by the insurance company must confirm at the closing of the accounts whether technical reserves (mainly those related to life and pension operations) have been calculated based on sound actuarial methods. He/she signs the published financial statements. Although no separate opinion of the insurance company’s actuary is included in the financial statements, the auditors mention in the scope of their report that, in relation to technical reserves actuarially calculated, their opinion is based exclusively on the actuary’s report.

CANADA: Accountants develop the measurement principles and actuaries develop the techniques for applying those principles. The Canadian Institute of Actuaries (CIA) has an established process for developing actuarial measurement standards that includes consultation with the accounting profession when appropriate.

In practice, actuaries undertake the detailed computations of most insurance-related liabilities. Accountants record the results of the actuaries’ work in the accounting records and incorporate the liability

amounts and associated note disclosures into the financial statements. The independent auditors of insurance enterprises report on insurance liabilities in rendering their opinion on financial statements as a whole. Under generally accepted auditing standards, an auditor is entitled to rely on the work of an actuary.

Each life insurance enterprise is required by statute to have an appointed actuary (who may be an officer of the company) responsible for reporting annually to shareholders and policyholders on the adequacy of the policy liabilities reported in the financial statements. In forming an opinion, the appointed actuary is entitled to rely on the work of the external auditor, who commonly performs limited audit procedures on the data and systems used by the appointed actuary, and on other experts. The appointed actuary has further reporting responsibilities for other information provided to the regulators.

FRANCE: Insurance liabilities are established under the legal responsibility of senior managers and have to be certified by legal auditors (“commissaires aux comptes”)

For measuring the liabilities, accountants with the help of actuaries are responsible for the preparation, applying principles indicated in the regulation (Insurance Code). In particular, actuaries are in charge of fixing the interest rates for the calculation of mathematical reserves in accordance with interest rates used to price policies contained in the portfolio (interest rate used for the calculation of mathematical provisions is at the most equal to the one used for pricing policies). Maximum interest rates can be variable depending of the category of contracts and the length of the contract.

They are also responsible for the use of mortality tables depending on the type of contracts, fixed by the regulation. It is possible to use mortality tables certified by an independent admitted actuary.

GERMANY: According to § 11a para. 3 VAG (Insurance Supervision Law) the responsible actuary of a life assurance enterprise must make certain that the rules of § 11 VAG are observed in calculating the premiums and the mathematical provisions. That means that the premiums must be calculated on the basis of reasonable actuarial assumptions and that they are sufficient for the insurance enterprise to meet all of its obligations and in particular to establish adequate mathematical provisions for the individual contract.

The responsible actuary must ascertain that the rules of the regulations on mathematical provisions promulgated under § 65 para. 1 VAG and § 341f of the commercial law are observed.

For insurance contracts with guaranteed interest the regulations promulgated under § 65 para. 1 VAG prescribe one or several

maximum rates for the actuarial interest. Furthermore they prescribe maximum amounts for Zillmerising and the actuarial bases for computing the coverage reserve to the extent necessary to implement European Union directives.

According to § 341f of the commercial law, mathematical provisions are to be established for the liabilities from the life assurance business and the insurance business conducted according to the prospective method or, if not possible, according to the retrospective method. While doing that, the responsible actuary must examine the financial situation of the insurance enterprise in particular with respect to whether it is at all times guaranteed that the obligations resulting from insurance contracts can continuously be met and whether the enterprise possesses sufficient funds in the amount of the solvency margin.

The before mentioned applies as well as appropriate:

- to the extent that accident insurance enterprises issue contracts providing for return of premiums;
- for insurance enterprises transacting substitutive health insurance;
- in calculating the mathematical provisions for annuities in general liability insurance, in motor vehicle liability and accident insurance, and in general accident insurance without return of premiums.

INDONESIA:

General insurers are under no obligation to use an actuary in measuring the policy liability.

Life insurers are required to have an appointed actuary (who may be an officer of the company). The appointed actuary is responsible for ensuring that the liabilities to policyholders presented in the financial statements are fair and adequate, and their computation is in accordance with general accepted actuarial standards and practices. The appointed actuary has further reporting responsibilities for other information required by the Ministry of Finance. The auditor appointed by an insurance company may rely on the actuarial valuation but must take “due care” and review the actuarial valuation; including meeting the actuary to discuss actuarial assumptions, data used in actuarial calculations and actuarial recommendations with respect to liabilities to policyholders.

ITALY:

LIFE: Each life insurance enterprise is required, by law, to have an appointed actuary (who may be an officer of the company) responsible for reporting annually to shareholders and policyholders on the adequacy of the policy liabilities reported in the financial statements. The actuary has further responsibilities for other information provided to regulators and is directly responsible for internal control procedures.

LIFE OR GENERAL: The law requires a separate Actuarial Opinion (by an outside qualified actuary). This opinion is in connection with

auditing technical reserves: the auditor is responsible only for the completeness and accuracy of basic data, but usually (by case-law) it is difficult to divide the effective responsibility.

JAPAN:

An insurance company must, for each fiscal year, draw up a business report describing the state of its operations and assets, and submit it to the Commissioner of the Financial Supervisory Agency. Moreover, an insurance company is, for each fiscal year, required to draw up an explanatory document describing the state of its operations and assets, and provide its head offices, branch offices, and subsidiary offices with this document so that it can be open to public inspection.

The chief actuary appointed by an insurance company, at the closing of the accounts, must confirm whether underwriting reserves for the insurance contracts have been accumulated through sound actuarial methods, whether the payment of policyholders' dividends or the distribution of surpluses has been made fairly and equitably, etc., and submit his/her opinion papers stating the result of the examination to the board of directors. After that, he/she must submit, without delay, copies of the same opinion papers to the Commissioner of the Financial Supervisory Agency.

The auditor appointed by an insurance company, at the closing of the accounts, must confirm whether the financial statements have been made truly and fairly, and submit the auditor's report to the board of directors. The scope of the audit must include insurance liabilities, and the auditor's opinions must be independent of the chief actuary's opinions.

KOREA:

Actuaries have responsibilities for the accuracy of insurance liabilities in the financial statements. Accountants should prepare financial statements based on GAAP and specific accounting rules issued by the ISB. These financial statements must be audited by independent certified public accountants.

MEXICO:

Basically, the responsibilities of actuaries and accountants in measuring insurance liabilities are to ensure their reasonable computation, recording, and disclosure in financial statements. Insurance companies are obligated to have an opinion rendered on their technical reserves each year. Such work should be performed by an independent actuary who is registered with the Commission. Insurance enterprises are also liable to have a public accountant (registered with the Commission) provide an opinion on their annual financial statements.

NETHERLANDS:

The opinion of the accountant/auditor implies an undivided responsibility for the completeness and accuracy of insurance liabilities in the financial statements of a Life or General insurance company. No separate opinion of an (appointed) actuary is included in these statements. In practice, accountants will have to work together with the

actuary to assume this responsibility. The auditing guideline dealing with this area details the required actions such as:

- review of basic data and principles for valuation;
- review calculation and the analysis of surplus;
- discussing the results with management; and
- reconciliation with financial statements.

In the returns for life companies, an actuarial opinion will have to be included which addresses particular actuarial returns, a sufficiency test and the analysis of surplus. An actuarial opinion is not included in the returns for general companies.

SOUTH AFRICA: The short term insurer is under no obligation to use actuaries in measuring liabilities. At the discretion of the company they might involve actuaries to measure liabilities of long tail business. The accountants' roles are mainly that of auditor and as part of their audit responsibility they will perform the necessary steps to satisfy themselves as to the adequacy of the insurance liabilities.

The life assurance company is obliged to appoint an actuary to value the company's life fund. The accountant relies heavily on the actuary and the accountant's role is restricted to ensuring that the methods and assumptions used by the actuary in determining the life fund are reasonable and consistent from year to year.

SPAIN: Under Spanish legislation, company directors are responsible for the proper preparation of the annual accounts both in the insurance and other sectors. The annual accounts must be signed by the directors and filed with the Mercantile Register. Accordingly, it is the directors who are responsible for the application of the appropriate accounting principles and compliance with prevailing legislation. Insurance companies are also required to submit additional information to the Insurance Regulatory Authority. The information must be signed by the directors of the entity and an actuary is required to certify that technical provisions have been calculated on an appropriate basis in compliance with prevailing legislation. These requirements apply to companies conducting both life and general insurance business.

SWEDEN: Management and the board are responsible for the accounts and financial statements, which must comply with the accounting laws and regulations. Neither the actuaries nor the accountants have specific powers when drawing up the accounts in general or determining the insurance liabilities.

SWITZERLAND: There is no "appointed actuary" in Swiss insurance legislation yet (but will be in future). Usually actuaries calculate life assurance liabilities. There is no common practice for non-life.

- UK: There is a legal requirement under the Insurance Companies Act to appoint an actuary who is required to fulfill a number of responsibilities. The Appointed Actuary provides a separate report on the insurance liabilities for the regulatory return. However, there is no requirement for an actuaries' report for general purpose financial statements. There is no requirement to have an actuary to report on general insurance business claims provisions.
- USA: Management is responsible for making the estimates included in the financial statements, including insurance liabilities. The determination of insurance liabilities is complex and involves many subjective judgments and therefore, it is a joint effort by the accountants and the actuaries. Accountants determine the accuracy of financial data used in actuarially calculated liabilities. Actuaries are responsible for the calculations/projections. The statutory filings require the company to issue a Statement of Actuarial Opinion relating to insurance liabilities.
- For GAAP purposes, the proposed Audit and Accounting Guide, Life and Health Insurance Entities, will require the use of an outside qualified actuary (that is, an actuary who is neither an officer nor an employee of the entity whose financial statements are being audited) in connection with auditing reserves, deferred acquisition costs, and other actuarially determined amounts in all audit engagements to which the proposed guide would apply. Such a requirement is similar to the standard established for property and liability insurance companies by SOP 92-4, Auditing Insurance Entities' Loss Reserves that requires the use of a "loss reserve specialist".

AN INSURANCE COMPANY BALANCE SHEET - ASSETS

6. Are some assets excluded from an insurance balance sheet that would be recognized in the financial statements of a noninsurance company?

(For example, Certain accounts receivable, like advances to agents? Certain real estate or fixed assets, like data-processing equipment and software? Deferred tax assets? Goodwill arising from a purchase business combination?)

- NO: Australia, Brazil, Canada, Germany, Indonesia, Italy, Japan, Korea, Spain, Sweden, Switzerland, UK
- FRANCE: There are no assets excluded from an insurance balance sheet that would be recognized in the financial statements of a noninsurance company.
- MEXICO: No, except for deferred taxes on capital market operations.
- NETHERLANDS: There are no assets excluded from the balance sheet of an insurer that would be recognised in the financial statements of a non insurance company. However, there could be a difference in valuation. For

example, real estate for own use by insurance companies could be classified as investments and valued accordingly.

SOUTH AFRICA: From a GAAP point of view there are no assets that would be excluded from insurance company financial statements that would be recognised in non-insurance financial statements.

From a statutory point of view there are assets that would be excluded e.g. intangible assets such as goodwill; or, for a short duration insurer, agents balances older than 60 days are excluded from assets.

USA:	GAAP:	No
	Regulatory reporting:	Yes

7. How are policy acquisition costs reported?

- ⇒ **All acquisition costs are charged to income when incurred.**
- ⇒ **Acquisition costs for short-duration contracts are charged to income, costs for long-duration contracts are reported as assets and amortized.**
- ⇒ **Acquisition costs are reported as assets and amortized.**
- ⇒ **Acquisition costs are directly or indirectly incorporated in measurement of the related liabilities or assets.**

AUSTRALIA: For general insurance, AASB 1023 requires acquisition costs incurred in obtaining and recording policies of insurance to be deferred and recognised as assets where they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent periods. Such assets must be amortised over the periods expected to benefit from the costs.

For life insurers, acquisition costs are expensed, but then the recoverable amount of those costs is reflected in policy liabilities. As the acquisition costs are recovered via future premiums, fees etc, they are no longer reflected in policy liabilities. The net result is that those acquisition costs which represent future economic benefits are carried forward and amortised.

BRAZIL: Policy acquisition costs are deferred when incurred and amortized into income over the term of policies in force. The unamortized balance is reported as an asset.

CANADA: For life insurance enterprises, all policy acquisition costs are expensed as incurred and reported in net income. Expected future acquisition costs over the term of policies in force are factored into the computation of the actuarial liability arising from those policies.

For property and casualty (general) insurance enterprises, policy acquisition costs are deferred when incurred and amortized into income over the term of policies in force in a manner that matches the costs with the premium revenues. The unamortized balance of deferred costs is reported as an asset.

FRANCE: Acquisition costs are incorporated in measurement of the related liabilities, but the amount of acquisition costs cannot exceed the margin taken by the insurer from the premiums (so-called zillmerisation).

GERMANY: Acquisition costs are charged to income when incurred. Amounts which the insurer gets back from the insured and which are included as premium charge are indirectly incorporated in measurement of the related liabilities using a Zillmer adjustment. As long as the Zillmer reserve is negative (which systematically is the case at inception of each policy) the negative amount is shown as an asset. The Zillmer adjustment is limited to 0.4 % of the total amount of premiums to be paid by the policyholder, without reference to the incurred costs.

INDONESIA: The revised accounting standard for general insurance (PSAK 28) does not address the issue of how policy acquisition costs should be treated in the financial statements. However the industry practice is that acquisition costs are charged to income when incurred.

For life insurance companies, PSAK 36 states that the policy acquisition costs can only be capitalized and amortized if the company uses the “Net Level Premium method” in its calculation of the liabilities for future policy benefits. If the company uses methods other than “Net Level Premium” e.g. “Zillmer method” or “INA method”, acquisition costs must be charged to income when incurred.

ITALY: The options are as follows:

- acquisition costs are charged to income when incurred and they are deducted only from the provision of unearned premiums; or
- all or part of the costs are deferred and amortized (maximum period: the life of the contract).

JAPAN: All acquisition costs are charged to income when incurred. Some insurance companies adopt a Zillmer Method.

KOREA: All policy acquisition costs are charged to income when incurred. Amounts which the insurer gets back from the insured and which are included as premium charge are indirectly incorporated in measurement of the related liabilities using an adjusted net premium method.

MEXICO: All acquisition costs are charged to income when incurred.

NETHERLANDS: The options are as follows:

- acquisition costs are charged directly to the profit and loss account;

- all or part of the acquisition costs (for example, only the variable portion) are deducted in general insurance from the provision of unearned premiums or in life insurance from the provision for life policy liabilities; or
- all or part of the costs are deferred and amortised.

Options 2 and 3 are preferred, except for single-premium policies.

SOUTH AFRICA: For long duration insurers, new business costs are recognised in income or operating statement when incurred.

For short duration insurers, the acquisition costs are recognised as incurred in the income statement. However, the calculation of the unearned premium reserve is calculated net of commission i.e. the premium deferred to future periods is net of commissions.

SPAIN: Acquisition costs of non-life policies may be recognised as assets where they are expected to give rise to future premium volume. Deferred acquisition costs are amortised over a maximum of five years. Commissions paid in advance for life insurance business may be recognised as deferred expenses, as may acquisition costs of policies pending technical amortisation. The acquisition costs so capitalised must give rise to future premium volume. Both deferred commissions and acquisition costs recognised as assets are amortised over the payment period of premiums. Commissions must be amortised using financial/actuarial criteria.

SWEDEN: Acquisition costs are reported as assets and amortized.

SWITZERLAND: All acquisition costs are charged to income when incurred.

UK: Acquisition costs are reported as assets and amortized in so far as there are sufficient future margins expected to flow out of contracts acquired.

The Companies Act requires the deferral of the costs of acquiring insurance policies which are incurred during a financial year but which relate to a subsequent financial year. Although the Companies Act permits three methods of deferring acquisition costs for life business, the Statement of Recommended Practice (SORP) recommends just two bases:

- as an explicit DAC asset, which may be calculated in whole or in part by means of an actuarial method (such as zillmerisation) which enables the costs so deferred to be separately identified; or
- implicitly by means of an actuarial method which makes allowance in the computation of the long term business provision for such costs.

For general insurance business, the SORP recommends that the calculation of DAC should be compatible with the basis used for calculating unearned premiums.

USA: Acquisition costs are reported as assets and amortized.
All costs that vary with and are primarily related to the acquisition of insurance contracts are capitalized

Capitalized acquisition costs, other than universal life-type contracts and certain participating life contracts, are amortized in proportion to premium revenue recognized.

Capitalized acquisition costs are amortized over the life of a book of universal life-type contracts at a constant rate based on the present value of the estimated gross profit amounts expected to be realized over the life of the book of contracts.

Capitalized acquisition costs related to certain participating life contracts are amortized over the life of a book of contracts at a constant rate, based on the present value of estimated gross margin amounts. This is similar to the method for universal life-type contracts including that the estimates of expected gross margin amounts should be evaluated regularly and that total amortization recorded to date should be adjusted if actual experience or other evidence suggests that earlier estimates should be revised. But the amounts included in margins are different than amounts in gross profits.

8. If acquisition costs are reported as assets, is there an accounting convention for measuring impairment or inability to recover the carrying amount? If so, please describe.

AUSTRALIA: For general insurers, there is a presumption that acquisition costs will be written off as the premium revenue to which they relate is recognised. There is no separate and overriding recoverable amount test in AASB 1023, but the Australian Corporations Law effectively prohibits assets being carried above recoverable amount. Australia is developing a generic standard on impairment of assets.
For life insurers, although the acquisition costs are not reported as a separate asset, the recoverability of the acquisitions cost component of policy liabilities is tested each time a valuation is done.

BRAZIL: No

CANADA: Deferred acquisition costs of general insurers are subject to a recovery test based on expected future premium revenue less expected future policy costs.

FRANCE: There is no specific accounting convention for measuring impairment or inability to recover the carrying amount.

GERMANY: As surrender values are limited to Zillmer reserves, acquisition costs charged to the policyholder are fully recovered at the time the Zillmer reserve becomes positive. Negative amounts shown as an asset may be

not recoverable. Therefore the implicit DAC-asset is reduced using a best estimate of expected non-recoverable amounts.

INDONESIA:	This question is not addressed by PSAK 36.
ITALY:	For general insurance companies there is an indirect limit on provision of unearned premiums when a premium deficiency exists. For life companies, the limit of carrying amount is the estimated gross margin amount chargeable.
JAPAN:	n/a
KOREA:	n/a
MEXICO:	n/a
NETHERLANDS:	There is no particular accounting convention other than the general requirements of prudent accounting and matching.
SOUTH AFRICA:	Acquisition costs are not deferred or carried as an asset.
SPAIN:	Regulations do not specify the tests required to verify whether it is appropriate to record acquisition costs as assets. Nevertheless, as a general rule these assets must contribute to the generation of premium revenues in future periods and the maximum periods for their amortisation are specified in the regulations. For general insurance, the maximum amortisation period is five years, while deferred acquisition costs of life insurance policies must be amortised over the period in which the related premiums are payable. Where policies are cancelled, deferred commissions and acquisition costs pending amortisation are written off.
SWEDEN:	Only acquisition costs that relate to contracts (or groups of homogenous contracts that are possible to follow up) which are expected to give a margin sufficient to cover acquisition costs, shall be reported as assets. Review for impairment when making financial reports.
SWITZERLAND:	n/a
UK:	DACs should be recoverable from future margins. No specific impairment tests are laid down in accounting standards. For general insurance business, provision is made for unexpired risks where the anticipated claims and expenses exceed premium and investment income.
USA:	Insurance contracts should be grouped consistent with the enterprise's manner of acquiring, servicing, and measuring the profitability of its insurance contracts to determine whether a premium deficiency exists. For short-duration contracts, a premium deficiency should be

recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums. The provision for the deficiency should be recognized by writing down deferred acquisition costs and then a liability should be accrued for any excess deficiency.

For long-duration contracts, the premium deficiency should be recognized as a charge to income and a reduction of deferred acquisition costs or an increase to the future policy benefits liability. Once a premium deficiency has occurred, future changes to the liability should be based on revised assumptions. A loss should not be recorded currently if it results in creating future income.

9. How are amounts due from reinsurance companies reported?

⇒ **As assets.**

⇒ **As an offset to the related liability.**

AUSTRALIA: On a gross basis - as assets.

BRAZIL: Amounts recoverable from the IRB Brasil Resseguros S.A. (the formerly Instituto Brasileiro de Resseguros - the monopolist reinsurer) are reported as an offset to the related liability.

CANADA: As assets. However, the following points should also be noted: Life insurers adjust the reported amount of their policy liabilities to reflect ceded coverage by netting against the expected future cash flows under insurance contracts the amounts expected to become receivable from, and payable to, reinsurers.

Premiums paid for retroactive reinsurance of short-term property and casualty insurance contracts are recognized as reinsurance receivables to the extent these premiums do not exceed the recorded liabilities relating to the reinsured portion of the underlying short-term contracts. When the reinsured liabilities exceed the reinsurance premiums, the reinsurance receivables are increased to reflect this excess. If the premiums ceded for retroactive reinsurance are greater than the reinsured portion of recorded liabilities relating to the underlying short-term insurance contract, the ceding enterprise reduces the reinsurance recoverable or increases the related liabilities, or both.

FRANCE: Amounts due from reinsurance companies are reported as assets

GERMANY: The reinsurers' share of the technical provisions is reported as an offset to the related liability, but is separately disclosed in the balance sheet.

INDONESIA:	Due from reinsurance companies is normally reported under the assets caption. However, if the reinsurance contract between the insurance company and the reinsurer specifies that offsetting is allowed, the due from reinsurance companies can be reported net of the related liability.
ITALY:	As assets.
JAPAN:	As assets.
KOREA:	The reinsurer's share of the technical provisions is reported as an offset to the related liabilities.
MEXICO:	Balances with reinsurance companies are reported in the balance sheet based on their nature, either credit or debit.
NETHERLANDS:	Amounts due from/to reinsurance companies are reported as separate assets and liabilities. Amounts due from/to the same reinsurer are presented on a net basis. The technical provisions shall be reduced by the part which is covered by reinsurance contracts.
SOUTH AFRICA:	Amounts due from reinsurers are shown as assets, however reinsurers' share of technical provisions are offset against the related liability i.e. technical provisions are reflected net of reinsurance recoveries. For life insurers, policy liabilities are calculated by taking into account the expected cash flows from reinsurance recoveries.
SPAIN:	As assets.
SWEDEN:	As assets.
SWITZERLAND:	Usually as an offset, but it is possible to report them as assets.
UK:	As assets.
USA:	As assets.

10. The matrix below outlines alternative accounting treatments for major asset classes. Check the boxes that apply to your situation. Feel free to comment or expand as necessary. If different treatments apply, please describe each.

Abbreviations used in these tables:

afs: Debt & Equity Securities - not classified as held-to-maturity or trading securities are classified as “available-for-sale”

htm: Debt Securities - Positive intent and ability to hold to maturity “held-to maturity-securities”.

(life): Life assurance undertakings

(p/c): Property and casualty insurance undertakings

ts: Debt & Equity Securities - bought and held principally for the purpose of selling them in the near term “trading securities”.

Note on Japan: The new Accounting Standards for Financial Instruments will be effective for fiscal years beginning on or after 1 April, 2000. The new Standards require fair value accounting for trading securities through earnings, fair value accounting for available-for-sale securities through equity and amortised cost accounting for held-to-maturity securities.

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
Debt Securities									
Carrying basis	AUS ¹ , KOR INS (ts/afs) NL ² SAF ³ (life, p/c) SWE (opt.) UK (opt.) USA (ts/afs)	CDN (life ⁴ , p/c ⁵) ESP, F, GER ⁶ I ⁷ , INS (htm) JPN, MEX, NL ² SWE (opt.), UK (opt.), USA (htm)	BRA, GER ⁸ I ⁹ , JPN ¹⁰ NL ² SWE (opt.) SUI						
Realized gains						AUS ¹ , BRA, CDN (p/c) ESP ^{11, 12} , F ¹³ , GER, I ^{7, 9, 15} INS (htm/ts/afs), JPN, KOR, MEX, NL ² , SUI, SWE, SAF ³ (life, p/c), UK		CDN (life ¹⁴) ESP ^{11, 12} , NL ²	SAF ³ (life)

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
						USA (htm/ ts/afs)			
Debt Securities									
Realized losses						AUS, ¹ BRA, CDN (p/c), ESP ^{11·12} , F ¹³ , GER, I ^{7·9·15} , INS(htm/ts/ afs), JPN, KOR, MEX, NL ² , SAF ³ (life, p/c), SWE, SUI, UK, USA (htm/ts/afs)		CDN (life ¹⁴) NL ²	SAF ³ (life)
Unrealized gains						AUS, ¹ ESP ¹² , I ^{7·9·15} , INS (ts), KOR, MEX, NL ² , SAF ³ (life) , SWE (if carried at FV), UK, USA (ts)	INS (afs), NL ² SAF ³ (p/c) ¹⁶ USA (afs)	ESP ¹¹ INS (htm) NL ² SUI	BRA, CDN (life,p/c), ESP ¹² , F GER, I ^{7·9} , JPN, SAF ³ (life), USA (htm)
Unrealized losses						AUS, ¹ BRA ¹⁷ , ESP ^{11·12} F ¹⁸ , GER ^{19,20} I, INS (ts) JPN, KOR, MEX, NL ² SAF (life, p/c) ^{3 21} , SUI SWE (if carried at FV)	INS (afs) NL ² SAF (p/c) ^{3 22} USA (afs)	ESP ^{11·12} INS (htm) NL ²	CDN (life ²³ ,p/c ²⁴) I ⁷ , JPN SAF (life) ³ USA (htm)

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
						UK, USA (ts)			
Equity Securities									
Carrying basis	AUS, ¹ I, KOR, MEX NL ²⁵ , SAF ³ (life, p/c) SWE, UK USA(ts/afs)	F, I ⁷ , SWE ²⁶ SUI	BRA, CDN (p/c ²⁷) ESP ¹¹ , F, GER I ⁹ , JPN ¹⁰ NL ²⁵ , SWE		CDN (life ²⁸)				
Realized gains						AUS, ¹ BRA, CDN (p/c), ESP ¹¹ , F GER, I ^{7·9·15} , JPN, KOR, MEX, NL ²⁵ , SAF ³ (life, p/c), SUI SWE, UK, USA (ts/afs)		CDN (life ²⁸)	SAF ³ (life)
Realized losses						AUS ¹ , BRA, CDN (p/c) ESP ¹¹ , F, GER, I ^{7·9·15} JPN, KOR, MEX, NI ²⁵		CDN (life ²⁸)	SAF ³ (life)

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
						SAF ³ (life, p/c), SWE SUI, UK, USA (ts/afs)			
Equity Securities									
Unrealized gains						AUS ¹ , I ¹⁵ , JPN ²⁹ , KOR MEX, NL ²⁵ , SAF ³ (life) SWE (if carried at FV) UK, USA(ts)	NL ²⁵ SAF (p/c) ^{3 16} USA(afs)	CDN (life ²⁸) ESP ¹¹ , NL ²⁵	CDN (p/c) ESP, F, GER I ^{7,9} , JPN SAF ³ (life) SUI
Unrealized losses						AUS ¹ , BRA ¹⁷ , ESP ¹¹ , F ³⁰ GER ¹⁹ , I ^{9,15} , JPN, KOR MEX, NI ²⁵ , SAF (life, p/c) ^{3 21} SWE (if carried at FV) SUI, UK, USA(ts)	NL ²⁵ SAF (p/c) ^{3 22} USA (afs)	CDN (life ²⁸) ESP ¹¹ , NL ²⁵	CDN (p/c ²⁴) I ⁷ , JPN SAF (life) ³

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
Loans (n/a for Brazil)									
Carrying basis	AUS ¹ , KOR NL ³¹ SAF ³ (life, p/c) SUI ³² , SWE UK	CDN (life ^{33,34} p/c ⁵), F, GER NL ³¹ , (SUI) SWE USA ³⁵	ESP ³⁶ , I ⁹ JPN ^{37, 10} NL ³¹ SWE		INS				
Realized gains						AUS ¹ , CDN (p/c) ESP ³⁶ , F, GER, I, JPN, KOR, MEX, NL ³¹ SAF ³ (life, p/c), SUI SWE, UK, USA		CDN (life ^{28,34}) NL ³¹	INS SAF (life) ³
Realized losses						AUS ¹ , CDN (p/c) ESP ³⁶ , F, GER I, JPN KOR, MEX, NL ³¹ SAF (life, p/c) ⁴³ SWE, SUI,		CDN (life ^{28,34}) NL ³¹	INS SAF (life) ³

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
						UK, USA			
Loans (n/a for Brazil)									
Unrealized gains						AUS ¹ , ESP ³⁶ , KOR MEX, NL ³¹ , SAF ³ (life) SUI SWE (if carried at FV) UK	NL ³¹ SAF (p/c) ^{3 16}	NL ³¹	CDN (life ³⁴ ,p/c) F, GER, I INS, JPN SAF (life) ³ (SUI), USA
Unrealized losses						AUS ¹ , F, GER ³⁸ , I KOR, MEX, NL ³¹ SAF (life, p/c) ^{3 21} , SUI SWE (if carried at FV), UK	NL ³¹ SAF (p/c) ^{3 22}	NL ³¹ ESP ³⁶	CDN (life ^{23:34} , p/c ²⁴) INS, JPN, SAF (life) ³ USA

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
Investment Real Estate n/a for CDN (p/c)									
Carrying basis	AUS ¹ , BRA ³⁹ MEX, NL ⁴⁰ SAF (life, p/c) SUI, SWE UK	ESP ⁴¹ , F, INS JPN (building) NL ⁴⁰ , SWE USA (less allowance for impairments)	GER, I ⁹⁻⁴² JPN (land) ¹⁰ KOR, MEX (SUI)		CDN (life ²⁸)				
Realized gains						AUS ¹ , BRA, ESP ⁴¹ , F GER, I ⁴² , INS, JPN KOR, MEX, NL ⁴⁰ SAF (life, p/c) SUI, SWE, UK, USA		CDN (life ²⁸) NL ⁴⁰	SAF (life)
Realized losses						AUS ¹ , BRA, ESP ⁴¹ , F GER, I ⁴² , INS, JPN KOR, MEX, NL ⁴⁰ SAF (life, p/c), SUI, SWE, UK, USA		CDN (life ²⁸) NL ⁴⁰	SAF (life)

	Fair (or market) value	Amortized cost or cost less depreciation	Lower of cost or some other amount	Actuarially determined value	Moving average method	Included in net income	Separate component of equity	Amortized on some basis	Not recognized
Investment Real Estate n/a for CDN (p/c)									
Unrealized gains						AUS ¹ , MEX, NI ⁴⁰ SAF (life), SUI SWE (if carried at FV) UK	BRA, MEX NL ⁴⁰ SAF (p/c) ¹⁶	CDN (life ²⁸) NL ⁴⁰	ESP ⁴¹ , F GER, I ⁴² INS, JPN KOR SAF (life) SUI, USA
Unrealized losses						AUS ¹ , BRA ⁴³ F (only permanent) GER ³⁸ , I ⁴² , MEX, NL ⁴⁰ SAF (life, p/c) ²¹ , SUI SWE (if carried at FV) UK	MEX, NL ⁴⁰ SAF (p/c) ²²	CDN (life ²⁸) ESP ⁴¹ NL ⁴⁰	GER, INS JPN, KOR SAF (life) USA

¹ Under AASB 1023, investments integral to a reporting entity's general insurance activities must be measured at net market values at each reporting date. Any changes in the amounts at which such investments are measured must be recognised as revenues or expenses in the periods in which the changes occur. A general insurer may have assets that are not integral to its general insurance activities, and these are generally treated on a cost basis.

Life insurers will be required to measure all assets at net market values at each reporting date, with any changes in the amounts at which assets are measured being recognised as revenues or expenses in the periods in which the changes occur.

² It is recommended that debt securities are carried at current/market value. Lower of cost or market value can also be applied.

Fixed interest debt securities may be valued at redemption value. If such securities are carried at redemption value, the difference between cost and redemption value shall be disclosed and taken to the profit and loss account over the years since purchase. The difference may also be taken to the P&L in one period if the acquisition cost exceeds redemption value. Where such securities are used to purchase similar securities, the difference between the sale and the book value may be spread equally over the remaining term of the original securities.

If investments are carried at current value, the following alternatives are available for accounting for results:

- unrealised results are included in the revaluation reserve and retained in the revaluation reserve upon realisation;
- unrealised results are included in the revaluation reserve and realised results are taken to the profit and loss account upon realisation;
- unrealised results are taken directly to the profit and loss account and any difference between the last book value and the selling price which has not already been reflected in the profit and loss account is taken to the P&L upon realisation;
- unrealised and realised results are included in the revaluation reserve and are released to the P&L over time in accordance with a fixed procedure ("structural indirect yield method").

For each of the items forming part of the investments present on the balance sheet, the notes shall include:

- the cost of the acquisition, where the investments are carried at current value;
- the current value at balance sheet date, where the investments are carried at cost.

³ Current treatment of investments is reflected in the matrix attached. Please note, however, exposure draft (ED126), modelled on IAS 32 will effect the reporting of investments, as follows. After initial recognition (which is at cost) financial assets should be measured at fair value except for: (i) held-to-maturity investments with a fixed maturity (measured at amortised cost using the effective interest rate method); and (ii) financial assets whose fair value cannot be reliably measured. A recognised gain or loss arising from a change in fair value should be reported as follows:

- if the investment is held for trading these unrealised gains or losses should be included in net profit or loss for the period (held for trading if it was acquired or incurred principally for the purpose of generating profit from short-term fluctuations in price or dealer's margin);

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- if the investment is not held for trading there are two options: include in net profit for the period; or recognise directly in equity, through the statement of changes in equity, until the investment is sold, collected or otherwise disposed or until it is determined that the investment is impaired, at which time the gain or loss should be included in net profit or loss for the period.
- ⁴ Debt securities are carried on an amortized cost basis, with any premium or discount arising on acquisition amortized to income over the term to maturity. Individual securities that have become impaired due to a decline in their creditworthiness are written down.
- ⁵ Debt securities and loans are carried on an amortized cost basis, less any write-down for impairment. Any premium or discount arising on acquisition is amortized to income over the term to maturity. The carrying amount of an asset is written down when the asset becomes impaired. An impairment write-down is charged directly against income and may not be reversed subsequently.
- ⁶ Registered Bonds
- ⁷ In situations where the company shows financial stability and the intention to hold the securities until maturity, such securities can be valued at the “amortized cost” according to which the discount of premiums is to be amortized and charged to income at a constant rate on the basis of the investment period (some life insurers use this method).
- ⁸ Bearer Securities
- ⁹ It is generally recommended that debt securities and equity securities are carried at the lower of cost or market. Market value is that resulting from the arithmetical average of the stock exchange quotation for the last month of the year. For non quoted securities, market should be determined with reference either to prices of recent transactions or to the expected present value of the security (for example matching with similar quoted securities). Unrealized losses (market lower than cost) are charged in net income and will be reversed subsequently. Investment in affiliated companies must be either consolidated or accounted for on equity basis.
- ¹⁰ Including cost method
- ¹¹ Investments in fixed or variable income securities which are directly related to life insurance policies in which the policyholder accepts the risk implicit in the investments are restated/depreciated each year to market. The amount of such restatements/depreciation is taken to income to offset the related changes in the life provision.
- ¹² Fixed interest securities must be assigned upon acquisition either to the portfolio of investments held to maturity or to the ordinary investment portfolio.
- Investments held to maturity:** At the end of each year, adjustments are made to cost on the basis of the yield to redemption of the securities. If securities held to maturity are sold, the proceeds should be reinvested in other securities with similar maturity unless the sale was made as a consequence of the surrender of related policies. If the proceeds of the sale are not reinvested, the profit is taken to income over the period remaining to the maturity of the securities divested, except that profit may be taken to income immediately in the case of investments sold as a consequence of the surrender of policies. Losses arising on the sale of securities are expensed when incurred and any deferred profits on operations involving investments held to maturity may be recognised up to the limit of the losses reported.

Ordinary investment portfolio: Adjustments are made to the value of securities at the year end where cost is lower than market, and the net loss is charged to expenses. Any gains arising may only be recognised to the extent of losses incurred. Profits or losses resulting from the sale of these securities are taken to income or expensed.

¹³ Realized gains (or losses) on debt securities due to a change in interest rates are cancelled in the income statement and directly transferred to “capitalization reserve” in stockholders’ equity

¹⁴ Realized gains and losses on debt securities and loans are deferred and amortized to income over the remaining term to maturity of assets sold.

¹⁵ Market value is the accounting treatment for the asset (and liabilities) related to insurance contracts, like variable life and annuity contract (Unit and Index linked) and some pension contracts when the contract holder assumes investment risks and the insurance enterprise receives fees for management and for any mortality risks assumed. Unrealized and realized results are included in net income.

¹⁶ Taken to non distributable reserve

¹⁷ Short-term investments are valued at lower of cost (plus accrued interest) or market value.

¹⁸ If there is any credit risk, the likely unrealized loss has to be recorded in the financial statements.

¹⁹ Included in income, even if not realized.

²⁰ Registered bonds are optionally valued at amortized cost or at lower of cost or market value, provided that the impairment is permanent.

²¹ P/C: Once the non distributable reserve is zero, the loss is transferred to income.

²² Loss is transferred to the non distributable reserve as long as the amount of the non distributable reserve is higher than zero.

²³ Impairment losses on debt securities and loans are recognized in income as they arise.

²⁴ Losses on investments are not recognized until realized, except in the case of an impairment write-down.

²⁵ It is recommended that shares and units are carried at current/market value. However, lower of cost or market value is also allowed. Refer to note 2 for further remarks about accounting for gains and losses.

²⁶ Subsidiaries and associated companies are carried at cost.

²⁷ Equity securities are carried at cost less any write-down for impairment. The carrying amount of an asset is written down when the asset becomes impaired. An impairment write-down is charged directly against income and may not be reversed subsequently.

²⁸ Equity securities and investment real estate are carried at an amount calculated using a "moving average market" method, by which changes in market values are reflected in financial statements gradually over a period of years on a systematic and rational basis. The difference between year-end market and carrying amounts is deferred and amortized into future years' incomes at rates prescribed by the OSFI (15% for equity securities and 10% for investment real estate). Realized gains and losses are also deferred and amortized at the same rates. The annual amortization amounts for unrealized gains and losses are added to, or deducted from, the asset carrying amounts. The unamortized balance of net realized gains or losses is carried separately on the balance sheet.

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- ²⁹ If the market value of marketable stocks exceeds their acquisition cost, regardless of the Commercial Code, on the condition of authorization of the Commissioner of the Financial Supervisory Agency, those marketable stocks may be stated at the amount below the market value but above the acquisition cost. In this case, an amount of income should be recorded as policy reserves or reserves for policyholders' dividends. (Insurance Business Law Article 112)
- ³⁰ If the depreciation of an asset is expected to last for a long period, the unrealized loss has to be recorded in the financial statements. Also, when the book value of the assets as a whole (except debt securities and unit-linked assets) is below the market value, the unrealized loss is recorded as a charge. The unrealized profit is not reported.
- ³¹ Receivables on account of mortgage loans and receivables on account of other loans are classified and treated similar to debt securities. It is recommended that loans which are not included in debt securities should be shown at historical cost or redemption value. Refer to note 2 for further remarks about accounting for gains and losses.
- ³² Applies only to listed securities. They should be stated at the average stock exchange rate of the month prior to the balance sheet date.
- ³³ Loans other than policy loans are carried on an amortized cost basis, with any premium or discount arising on acquisition amortized to income over the term to maturity. Individual loans are written down when they have become impaired (i.e., when the enterprise no longer has reasonable assurance of timely collection of the full amount of principal and interest, whether the loss has been realized by an actual default or not).
- ³⁴ Policy loans, which are fully secured by the cash surrender value of the policies against which the loans are made, are carried at their unpaid balance. No gains or losses arise on these loans.
- ³⁵ Or outstanding principal balance (less allowance for impairments).
- ³⁶ Loans are recorded at their nominal value. Accrued interest receivable at the balance sheet date is recorded as an asset and recognised as income. Provisions made for doubtful loans are charged to expenses.
- ³⁷ An allowance for bad debt has been provided.
- ³⁸ Included in income, if impairment is permanent, even if not realized.
- ³⁹ Real estate must be revalued, at least, every three years.
- ⁴⁰ Investments in real estate are carried at cost or current value. Depreciation need not be charged if buildings are carried at current value. Current value is the amount at which such investments can be sold by private treaty by a willing seller to a buyer who is independent of the seller assuming that the market conditions permit a regular transaction and that negotiations in respect of the sale can take place within a normal timespan. Refer to note 2 for further remarks about accounting for gains and losses.
- ⁴¹ Investments in real estate are stated at cost of acquisition, which includes all additional expenses until the related assets are operational. The assets are depreciated over their estimated useful lives.

Provision is made for impairments in the value of these assets with a charge to expenses. The assets are considered to have suffered a permanent impairment, inter alia, if their value as assessed by independent appraisers for two consecutive years is less than the book value. In these circumstances a provision is required.

Profits or losses arising on the sale of real estate are taken to income or expensed.

⁴² Real estate is valued at the lower of cost or market. Such value includes all costs connected with the acquisition of asset and costs incurred to develop the property for income producing purpose. Deviations from the cost principle are only accepted in case of revaluations allowed by special law. Revaluations, which cannot exceed the fair market value, are not be credited to the profit and loss account but directly accounted for in a specific component of shareholders' equity. Real estate for the use of the firm is to be depreciated according to relevant economic or technical criteria.

⁴³ Included in income even if not realized

AN INSURANCE COMPANY BALANCE SHEET - SEPARATE ACCOUNTS

11. Some insurance contracts, like variable life and annuity contracts and some pension contracts, do not represent a claim against the general assets of the entity. Instead, the contract holder assumes investment risks and the insurance enterprise receives fees for management and for any mortality risks assumed. How are the assets and liabilities related to those contracts reported?

- ⇒ **They are not reported in the financial statements.**
- ⇒ **They are commingled with other assets and liabilities of the insurance enterprise.**
- ⇒ **They are reported in a separate category of assets and liabilities.**

AUSTRALIA: They are commingled with other assets and liabilities of the insurance enterprise. However, AASB 1038 requires disaggregated disclosures by fund, and funds in Australia must be set up to segregate “investment-linked” business (where the policyholder bears substantially all the investment risk) from “non-investment-linked” business.

BRAZIL: n/a

CANADA: Assets and liabilities associated with such "segregated account" contracts are presented separately in the insurer's financial statements. Some life insurers report segregated account assets and liabilities as separate balances in their general account balance sheet, some report them in a completely separate statement and some report them in the notes to their financial statements.

FRANCE: When the contract holder assumes investment risks, assets and liabilities are reported in a separate category.

GERMANY: They are reported in a separate category of assets and liabilities.

INDONESIA: They are commingled with other assets and liabilities of the insurance enterprise.

ITALY: They are reported in a separate category of assets and liabilities.

JAPAN: They are commingled with other assets and liabilities of the insurance enterprise.

KOREA: They are commingled with other assets and liabilities of the insurance enterprise.

MEXICO: Trust transactions are recorded only in memoranda accounts.

NETHERLANDS: The investments and technical provisions for insurance for which policyholders bear the investment risks and for tontines are separately reported in the balance sheet of an insurance company.

SOUTH AFRICA:	Currently there is no specified separate treatment for these assets; they are included with other assets and liabilities of the insurance enterprise.
SPAIN:	They are reported in a separate category of assets and liabilities.
SWEDEN:	They are reported in a separate category of assets and liabilities, since they are always invested in external funds / unit trusts.
SWITZERLAND:	They are reported in a separate category of assets and liabilities.
UK:	Assets and liabilities in respect of policies where the benefit is linked to assets or indicies are reported in a separate category of assets and liabilities.
USA:	They are reported in summary totals in a separate category of assets and liabilities. Investments in separate accounts should be reported at market except for those with guaranteed investment returns. The AICPA has started to develop a Statement Of Position (SOP) on accounting by insurance companies for certain non-traditional long-duration contracts and for separate accounts. This SOP may change how separate account assets and liabilities are reported.

AN INSURANCE COMPANY BALANCE SHEET - LIABILITIES

Short-Duration (property, casualty, and liability) Contracts

12. How are premiums reported in the financial statements?

- ⇒ **Initially reported as a liability (deferred premiums) and amortized over the policy term.**
- ⇒ **Initially reported as a liability (deferred premiums) and amortized over some other term.**
- ⇒ **Reported as revenue on receipt.**

AUSTRALIA:	AASB 1023 requires premium recognition from the time the insurer is “on risk” and in accordance with the pattern of the incidence of risk, or where the result would not be materially different, evenly over the period of the policy. In the vast majority of cases this would mean initially reporting premiums as a liability (deferred premiums) and amortising them over the policy term.
BRAZIL:	Premiums are initially recorded as revenue on the dates policies are issued and are adjusted by the unearned premiums reserve. The unearned premiums reserve represents the portion of premiums written relating to unexpired terms of the coverage, calculated on the 24 th basis.
CANADA:	Premiums for short-duration property and casualty insurance are initially reported as a liability (deferred premiums) and amortized over the policy term. Life insurers report premiums for short duration contracts as revenue when they become due.

FRANCE:	The premiums are reported as revenue on receipt. Unearned premiums are deferred and amortised over the policy term.
GERMANY:	Premiums are initially reported as deferred premiums and amortised over the policy term. If the general assumption of temporal correlation between risk appearance and premium is not appropriate, account has to be taken of the different pattern of risk over time.
INDONESIA:	Premiums from short duration contracts are ordinarily recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Unearned premiums, that portion of the amount applicable to the unexpired period of the policy, are presented as an unearned premium reserve in the balance sheet.
ITALY:	Reported as revenue on receipt, but the unearned part is deferred.
JAPAN:	Initially reported as a liability (deferred premiums) and amortized over the policy term.
KOREA:	Reported as revenue on receipt, but the unearned part is deferred.
MEXICO:	Initially reported as a liability (deferred premiums) and amortized over the policy term.
NETHERLANDS:	Premiums are initially reported as a liability (deferred premiums) and amortised evenly over the period of risk. If, however, the risk is not evenly spread over the period, the premiums should be accounted for accordingly.
SOUTH AFRICA:	Premiums in short duration contracts are reported as revenue when due (or received) but the unearned part is deferred.
SPAIN:	Premiums on direct insurance are initially reported as revenue when the policy is issued. Nevertheless, such income must be deferred over the period in which the related risk is covered (i.e. from the date the policy comes into effect until it expires). In this cases, the deferred portion is calculated and recorded as a liability (unearned premiums provision).
SWEDEN:	Reported as revenue on receipt, but the unearned part is deferred and amortized over the policy term.
SWITZERLAND:	Initially reported as liability and amortized (any reasonable method).
UK:	Reported as revenue on receipt, but the unearned part is deferred.
USA:	Practice generally considers gross premium to include direct business and to be the amount charged to the policyholder. Assumed premiums are added and ceded premiums are subtracted from gross premiums to calculate net premiums. Premium taxes passed on to the policyholder are included in gross premiums.

Premiums ordinarily are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. For those contracts where the period of risk differs from the contract period, premiums should be recognized as revenue over the period of risk in proportion to the amount of insurance protection provided.

13. How are claim liabilities measured in the financial statements?

⇒ **Based on estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors.**

⇒ **Based on some other approach. (Please describe.)**

AUSTRALIA:	Based on estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors.
BRAZIL:	Claims liabilities are measured in the financial statements based on estimated ultimate cost of settling the claim including the effects of inflation.
CANADA:	In general, claim liabilities of insurance enterprises are measured based on the estimated ultimate cost in nominal dollars of settling the claims, including all amounts the insurer is contractually or statutorily required to pay. Such amounts may include provision for the effects of inflation and other societal and economic factors, depending on the terms of the insurance coverage. Except for some property and casualty insurance, reported claim liability amounts also include a margin for adverse deviation.
FRANCE:	Based on estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. The future estimated management costs are included.
GERMANY:	Claim liabilities are measured based on estimated ultimate cost of settling the claims, excluding effects of inflation.
INDONESIA:	For claims already reported, the claims liabilities are measured in the financial statements based on the ultimate cost of settling the claims. For claims already incurred but not reported, the claims liabilities are measured in the financial statements based on the estimated cost of settling the claims.
ITALY:	Claim liabilities are measured based on estimated ultimate cost of settling the claims, including effects of inflation.
JAPAN:	Based on estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Claim liabilities are measured based on estimated ultimate cost of settling the claims; however, IBNR loss reserves are estimated based on the method provided by the regulations.

KOREA:	Claims incurred should include both claims notified and IBNR claims. Claims notified are measured based on estimated ultimate cost of settling the claim; however, IBNR loss reserves are estimated by the methods provided by the regulations.
MEXICO:	Claim liabilities are recorded as reported in the claim amount. Additionally, possible adjustments as well as the provision for future claims are recorded through the IBNR losses account. Moreover, in the case of damages, claims are recorded based on an estimate made by an adjuster and, once actual damages have been quantified, adjustments are made, irrespective of the adjustments to the IBNR account.
NETHERLANDS:	Claim liabilities are stated at the estimated ultimate cost of settling the claim, including claims processing expenses, taking account of all future price trends and cost inflation.
SOUTH AFRICA:	Claims liabilities in short duration business are measured based on estimated settlement costs.
SPAIN:	<p>The provision for claims must represent the total amount of the insurer's obligations in relation to claims arising prior to the period end. Accordingly, it will be equivalent to the total estimated or known cost of claims, less amounts already paid.</p> <p>For these purposes, the cost will include both external expenses and internal administration and processing costs of claims, whatever their origin, which may have been incurred or will be incurred in the future until the claim is settled and paid in full. Recoveries or analogous amounts are recorded as an asset and never presented as a diminution in the provision.</p>
SWEDEN:	Based on estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors.
SWITZERLAND:	Claim liabilities are not discounted and do not include effects of inflation. Non-specific loss adjustment expenses (such as the claims department) are not recognized.
UK:	Based on estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors.
USA:	Claims liabilities are measured based on the ultimate cost of settlement, including loss adjustment expenses. Claims incurred should include both claims notified and claims incurred but not reported ("IBNR"). Estimated recoveries such as salvage and subrogation should be deducted from the unpaid claim liability.

14. Are claim liabilities reported at present value (discounted)? If some claim liabilities are discounted and some are not, please describe the rule and, in general terms, the relative proportions of discounted and undiscounted liabilities.

AUSTRALIA:	Claim liabilities are reported at present value.
BRAZIL:	No
CANADA:	Claim liabilities of property and casualty insurance enterprises are carried out at an undiscounted amount except for accident benefit claims under automobile and accident and sickness policies. Claim liabilities of life insurers are all reported on a discounted basis.
FRANCE:	The claim liabilities are not discounted.
GERMANY:	Provisions for claims to be paid as annuities must be calculated according to recognized actuarial methods.
INDONESIA:	Claims liabilities are at present value.
ITALY:	Only provisions for claims to be paid as annuities must be calculated according to recognized actuarial methods.
JAPAN:	Claim liabilities are not discounted.
KOREA:	Claim liabilities are not discounted.
MEXICO:	As indicated in the preceding question, claim liabilities are reported for the claim amount plus related adjustment expenses.
NETHERLANDS:	<p>Outstanding claims and benefits are in principle stated at nominal value. Discounting is permitted only if the following conditions are satisfied:</p> <ul style="list-style-type: none"> • settlement of claims is expected to take at least four years from the date of the annual accounts for the year in which the claims were incurred; • settlement is made in accordance with a reliable claims settlement schedule that takes account of all factors which might increase the cost of claims settlement; • the discount factor does not exceed the actual average yield over the preceding five years (including the financial year in question) on the assets representing this technical provision nor the yield on those assets for the financial year in question.
SOUTH AFRICA:	No prescribed treatment but generally in South Africa practice is not to discount claims liabilities.
SPAIN:	As a general rule, the claims provision is made without discounting the cost of estimated future liabilities. The provision is thus made at the nominal value of estimated future claims.

SWEDEN:	Implicit discounting is not permitted. Open discounting can be used under certain prerequisites, such as expected remaining time to settlement is at least four years, all factors that can be expected to increase the amount shall be taken into account.
SWITZERLAND:	Claim liabilities are not discounted and do not include effects of inflation. Non-specific loss adjustment expenses (such as the claims department) are not recognized.
UK:	Companies Act prohibits the use of implicit discounting; explicit discounting is permitted under certain conditions and with specific disclosures. Discounting is permitted where: <ul style="list-style-type: none"> • the average interval between the accounting date and the expected settlement date is no less than four years; • it is effected on a recognised prudential basis; • when calculating the total cost of settling claims, account is taken of all factors which may cause increases in that cost; and • a reliable model is used to predict claims settlement patterns and the company has adequate data available for such a model. Discounting is not widely used except for certain long tail business.
USA:	Discounting is not generally applied except for longer tail lines of business. The SEC provides guidance on conditions for using discounting as follows: (1) the payment pattern and ultimate cost are fixed and determinable on an individual claim basis; and (2) the discount rate used is reasonable based on the facts and circumstances applicable to the registrant at the time the claims are settled.

15. If claim liabilities are reported at present value, what is the source of the discount rate?

AUSTRALIA:	Under AASB 1023, the discount rate used in measuring the present value of claim liabilities must be the rate or rates of return that the insurer anticipates it could earn if sufficient funds are available to meet claims as they fall due and must be determined by reference to market-determined risk-adjusted rates of return appropriate to the insurer.
BRAZIL:	n/a
CANADA:	Claim liabilities carried at present value are discounted at the “book value yield” on assets supporting (backing) the liability.
FRANCE:	n/a
GERMANY:	The maximum discount rate is fixed by a decree of the Federal Ministry of Finance / the Supervisory Authority. The actuarial interest is based on the current interest rate of government bonds of the country in whose currency contractual benefits are expressed and may not exceed 60 per cent. The current rate for contracts nominated in Deutsche Mark is 4%.

INDONESIA:	n/a
ITALY:	Actuarial methods.
JAPAN:	n/a
KOREA:	n/a
MEXICO:	n/a
NETHERLANDS:	The source of the discount rate has not been outlined by law, decree or guideline but has been maximised on the factors as stated in question 14. In practice, companies base their rate on their actual yield over the past one to five years within the prescribed limits.
SOUTH AFRICA:	n/a
SPAIN:	n/a
SWEDEN:	The discount rate shall be a prudent estimate of the expected yield on the investments that corresponds with the provisions on the time period until settlement.
SWITZERLAND:	n/a
UK:	The discount rate is determined by the management, but subject to legislative restrictions.
USA:	The discount rate has to be reasonably based on the facts and circumstances applicable at the time the claims are settled.

16. Are equalization reserves, contingency reserves, or similar provisions:

⇒ **Required.**

⇒ **Permitted but not required.**

⇒ **Prohibited.**

AUSTRALIA:	Prohibited
BRAZIL:	No specific accounting rules
CANADA:	No such reserves or provisions are reported separately within liabilities on an insurer's balance sheet. However, when measuring policy liabilities, enterprises make due provision for adverse deviation which, in a broad sense, may be viewed as a form of contingency reserve. Reserves that are appropriations of surplus within equity are permitted at the discretion of the enterprise.
FRANCE:	Equalisation reserves are required (in fact, they are permitted)

GERMANY:	Required.
INDONESIA:	n/a
ITALY:	Required.
JAPAN:	Catastrophe Loss Reserves are required.
KOREA:	Required.
MEXICO:	Required.
NETHERLANDS:	An equalisation provision may be made only for credit insurance. Similar reserves are in principle not permitted.
SOUTH AFRICA:	A contingency reserve is required in terms of the Insurance Act, other reserves or provisions may be set up by the insurer at the discretion of its executive management if required.
SPAIN:	Required.
SWEDEN:	Equalization provisions are required for credit risk insurance according to EU rules, and prohibited for other lines of business. A voluntary “equalisation reserve” is tax deductible. This is treated not as a claim liability but as an untaxed reserve between liabilities and equity. In consolidated financial statements, it is split into tax provision and equity.
SWITZERLAND:	Equalization reserve is required only for “Kredit”. Contingency reserves are permitted.
UK:	Required.
USA:	Prohibited.

17. If equalization or similar reserves are required or permitted, are they computed according to a formula or schedule prescribed by regulatory authorities?

AUSTRALIA:	n/a
BRAZIL:	n/a
CANADA:	The regulatory authorities have not prescribed any method of determining an equalization or similar reserve.
FRANCE:	Insurance undertakings may set up an equalization reserve in the property and casualty insurance, credit insurance, and the life and health group insurance.

In property and casualty insurance the annual allocation to the equalization reserve is calculated on a lump-sum basis, but the annual allocation may not exceed 75% of the underwriting income. The underwriting income results from the total earned premium income and charges relating to claims, and direct and indirect expenses. The total reserve may not exceed the following percentage of premiums written:

- 200% for hail insurance;
- 300% for risk relating to natural disasters (legal insurance);
- 300% for other risks relating to natural phenomena;
- 300% for space risks 500% for nuclear risks, and
- 500% for pollution related risks (liability insurance).

If the underwriting income is negative, the amount to cover the negative income is transferred from the equalization provision as far as possible.

When making deductions from the equalization reserve the oldest annual allocations are used first. Annual allocations not used within 10 years after their creation are released from the reserve and reincorporated in the taxable income of the 11th year.

In credit insurance the operations covered by these reserves are those guaranteeing corporate loan risks, i.e. those which guarantee the repayment of losses resulting from the insolvency of clients of the insured corporations. These operations concern standard-commercial policies involving trade receivables and similar short term supplier-loans. Operations not meeting these criteria are excluded, namely factoring operations and trade-bill and surety-related operations. Export credit-guarantee operations carried out or backed by the French Government are not covered.

Equalization reserves for credit insurance are required, if the operations are significant. Insignificant operations are those where the premium income is no more than 4% of the total premium income of the insurance undertaking or less than 2.5m ECU.

The annual allocation to the equalization reserve may not exceed 75% of the underwriting income. The total equalization reserve must not exceed 134% of the average premium income (net of reinsurance) reported during the previous five years.

The utilization of the equalization reserve is equivalent to property and casualty insurance.

In life and health group insurance the equalization reserve is designed to offset fluctuations arising from these operations

GERMANY:

In Germany the treatment of equalization reserves is based on fully researched empirical findings which are reflected in the Accounting

Regulations for Insurance Enterprises (RechVersV) issued by the Ministry of Justice on November 8, 1994 and is equally binding for statements prepared under commercial law and under tax law. The regulation is applicable to all non-life insurance and reinsurance enterprises. It applies to all insurance lines for which a separate profit and loss account is prepared for regulatory purposes, and for which:

- (1) the net premiums exceeded DM 250,000 on average during the last three years;
- (2) the standard deviation of loss ratios from the average amounts to at least 5 percentage points;
- (3) the combined loss ratio exceeded 100% in a year.

The maximum amount of the equalization reserve is 4.5 times (6 times for hail, credit, guarantee and fidelity insurance) the standard deviation of the loss ratio multiplied by annual earned net premiums. The maximum amount must be reduced by any loading included in premiums for contingencies.

If below-average claims have occurred during a financial year, a corresponding amount is transferred to the equalization reserve, up to the maximum reserve. If above average losses have occurred, the corresponding amount is withdrawn from the equalization reserve. The calculation of average claims in this context is based on a period of up to 15 years (30 years in hail, credit, guarantee and fidelity insurance).

As the calculation of the maximum amount of the reserve is based on a discount rate of 3.5%, the equalization reserve must be increased every financial year by notional interest at 3.5% of the maximum reserve, irrespective of whether there are below or above-average claims.

For nuclear installations risk insurance and pharmaceutical product risk insurance a large risk reserve is required. The functioning of the large risk reserve resembles that of the equalization reserve because it enables an individual financial year to be charged with a claims cost reflecting the average cost over a longer period of time. Nevertheless, the large risk reserve is independent of the equalization reserve and is established to meet different insurance circumstances. The equalization reserve proceeds on the assumption that claims vary over a period of several years and ensures, by a mechanism of adding and withdrawing funds, that these fluctuations are spread evenly. It is concerned with normal claims fluctuations occurring at random. The large risk reserve is concerned with fluctuations during the year which occur because of individually exceptional claims.

The large risk reserve is therefore an additional reserve similar to the equalization reserve to even out fluctuations inherent in large risks; it provides a further layer of reserve, over the general equalization reserve.

ITALY: These reserves are prescribed by legislation and are based on the percentage of annual premiums for: Nuclear, Credit fidelity, Guaranties (bond), Natural calamity, Earthquake.

JAPAN: Catastrophe loss reserve is a statutory and Japanese-GAAP technical reserve. Technical reserves include Unearned Premium reserve, catastrophe loss reserve, reserve for return premiums of deposit-type insurance, etc.

Insurance Business Law and Regulations set forth by Minister of Finance require the reserve with precise rules for its calculation. The amounts available for distribution to the shareholders are reduced by the amount of this reserve, and thus are not yet earned by the owners of the firm.

Accumulation rate, drawdown criteria and reserve cap are set forth by group of lines.

Hull/Aviation Group: Hull, Aviation

Fire/Cargo/Transit Group: Fire, Cargo, Transit, Windstorm & Flood, Liability, Construction, Movables Comprehensive

Auto/Casualty/Others Group: Auto, Casualty, Others (excluding Windstorm & Flood, Liability, Construction, Movables Comprehensive, Nursing Care, Nuclear, and Bond)

Nursing care Group: Nursing care

Bond Group: Bond

Nuclear: Nuclear

Accumulation Rate to Net Premiums Written

- a. Hull/Aviation Group: 3%
- b. Fire/Cargo/Transit Group: Fire: 3.5% (When the reserve balance ratio to Net Premiums Written is less than a certain percentage, accelerated accumulations are permitted up to 1.5 times the usual accumulation rate) Other than Fire: 2%
- c. Auto/casualty/other Group: 2%
- d. Nursing care Group: 2%
- e. Bond Group: 2%
- f. Nuclear Group: 50%

There are no qualifying events. If a group's written to paid loss ratio in

a fiscal year exceeds a certain percentage, the excess losses are regarded as Catastrophic Losses. See below.

Reserve Cap

- a. Hull/aviation Group: 160% of Net Premiums Written
- b. Fire/cargo/transit Group: 100% of Net Premiums Written
- c. Auto/casualty/other Group: 100% of Net Premiums Written
- d. Nursing care Group: 100% of Net Premiums Written
- e. Bond Group: 100% of Net Premiums Written
- f. Nuclear Group: No Limitation

Draw-down (Release) Criteria

- a. Hull/aviation Group: losses over 80% in W/P Loss Ratio
- b. Fire/cargo/transit Group: losses over 50% in W/P Loss Ratio
- c. Auto/casualty/other Group: losses over 50% in W/P Loss Ratio
- d. Nursing care Group: losses over 50% in W/P Loss Ratio
- e. Bond Group: losses over 50% in W/P Loss Ratio
- f. Nuclear Group: all losses

KOREA:	n/a
MEXICO:	The Commission requires Contingency, Equalization and Catastrophic Risk Reserves. Their computation and disclosure are prescribed by the regulatory authorities.
NETHERLANDS:	These reserves are computed according to a formula prescribed by the Insurance Industry Technical Provisions Decree.
SOUTH AFRICA:	The statutory contingency reserve required in terms of the Insurance Act is calculated at 10% of net written premium as prescribed by the Act. Other reserves or provisions are calculated at the discretion of executive management.
SPAIN:	<p>Equalisation provisions are required for a series of risks established in relevant regulations. Insurance entities may also book equalisation provisions for other risks on the basis of the surcharges established in the technical bases defining calculation of the premium, provisions, etc.</p> <p>Insurers are required to set up equalisation provisions at least for the following risks and limits:</p>

- Civil liability for nuclear risks: 300% of premiums written during the year net of reinsurance ceded.
- Credit insurance: 134% of the average premiums written in the last five years, net of reinsurance ceded.
- Civil liability for motor insurance, professionals, products, construction, industrial risks, bonding, environmental risks and catastrophic risks: 35% of risk premiums net of reinsurance ceded. Nevertheless, this limit may vary on the basis of the experience of each entity over the preceding ten years.
- Risks included in combined agricultural insurance schemes.

Specific regulations exist for charges to these provisions, and the levels required are updated by the authorities on a regular basis.

SWEDEN:	The requirements are given in the Insurance Business Act. A certain part of the technical profit of the credit risk business shall be transferred to the equalization reserve, if this does not correspond to at least 150% of the highest premium in any of the last five years.
SWITZERLAND:	Equalization reserve 134% (average premiums of the last 5 years).
UK:	Prescribed by legislation (based on the percentage of annual premiums).
USA:	n/a

18. Do retroactive reinsurance treaties (like loss-portfolio transfers) result in current recognition of a gain or loss, or is the amount deferred?

AUSTRALIA:	AASB 1023 requires portfolio transfers to be treated as reinsurance when responsibility for claims remains with the transferring insurer.
BRAZIL:	No specific Brazilian GAAP standards or regulatory guidelines.
CANADA:	No specific Canadian GAAP standards or regulatory guidelines. In the past, life insurers have recognized a gain or loss when entering into a retroactive reinsurance treaty but practice appears to be evolving to deferral and amortization.

In the case of property and casualty insurance, a ceding enterprise may recognize a gain or loss at the inception of a retroactive reinsurance treaty, depending on the circumstances. When reinsured liabilities exceed the reinsurance premium paid, the resulting net reinsurance recoverable gives rise to a gain that is deferred and amortized into income over the period in which the ceding enterprise expects to recover all amounts due from the reinsurer. A gain is recognized on inception of a reinsurance treaty only when the ceding enterprise has no further liability to the policyholders. When reinsurance premiums paid

exceed the carrying amount of reinsured liabilities, the difference is charged against income immediately. A reinsurer recognizes a gain or loss for retroactive reinsurance assumed on the same basis as an insurer, i.e., with no deferral of gain or loss after proper recognition and measurement of premiums earned and liabilities assumed.

FRANCE:	No specific regulations. The ceding insurer recognises a gain or loss immediately.
GERMANY:	There are no special regulations concerning retroactive reinsurance; treatment of loss-portfolio transfers: for the cedent a gain/loss is recognized immediately.
INDONESIA:	Retroactive reinsurance treaties (like loss-portfolio transfers) result in current recognition of a gain or loss.
ITALY:	There are no special regulations concerning retroactive reinsurance: for the ceding enterprise a gain/loss is usually recognized immediately.
JAPAN:	They result in current recognition of a gain or loss.
KOREA:	They result in current recognition of a gain or loss.
MEXICO:	Retroactive reinsurance treaties are not permitted.
NETHERLANDS:	The accounting for retroactive reinsurance treaties (like loss-portfolio transfers) depends largely on the nature of the treaty. Contracts that do not involve the transfer of insurance risk should be accounted for in the annual accounts as financing agreements and not as reinsurance contracts. In case of financing, gains or losses will most likely be deferred and the matching principle will prevail.
SOUTH AFRICA:	Retroactive reinsurance treaties result in current recognition of a gain or loss for the cedent. The insurer/reinsurer receiving the business will defer and take the profit or loss over the term of the contracts.
SPAIN:	No specific regulations. Accordingly, gains or losses are recorded in accordance with the basic accounting principles applicable to the sector and, in particular, with the prudence concept which prevails over all others. In this light, it would be necessary to examine the operation to establish whether profits were definitive or losses likely.
SWEDEN:	The Financial Supervisory Authority are of the opinion that the general principles of the accounting law for insurance companies (true and fair view, matching, prudence) would normally be violated by an accounting that results in losses/gains from retroactive transfers if they are linked with a insurance contract that covers also future periods.
SWITZERLAND:	Neither specific requirements nor common practice.
UK:	Recognized as current gains.

USA: Reinsurance contracts do not result in current recognition of a gain or loss unless the contract is a legal replacement of one insurer by another and thereby extinguishes the ceding enterprise's liability to the policyholder or if the amounts paid for retroactive reinsurance are in excess of recorded liabilities then the excess should be charged to expense at the inception of the reinsurance contract.

Paragraph 22 of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, requires the following:

Amounts paid for retroactive reinsurance that meet the conditions of reinsurance accounting shall be reported as reinsurance receivables to the extent those amounts do not exceed the related liability. If the recorded liability exceed the amounts paid, reinsurance receivables shall be increased to reflect the difference and the resulting gain deferred. The deferred gain shall be amortized over the estimated remaining settlement period.

If the amount and timing can be reasonably estimated, the deferred gain shall be amortized using the effective interest rate inherent in the amount paid to the reinsurer and the estimated timing and amounts of recoveries from the reinsurer (the interest method). Otherwise, the proportion of actual recoveries to total estimated recoveries (the recovery method) shall determine the amount of amortization.

19. In accounting for activity on a reinsurance treaty:

⇒ **Ceded premiums and other amounts paid to reinsurers are recorded as debits to premium revenue. Recoveries are recorded as credits to claim expense.**

⇒ **Ceded premiums and other amounts paid to reinsurers are recorded as debits to an expense account. Recoveries are recorded as credits to a revenue account.**

AUSTRALIA: Ceded premiums and other amounts paid to reinsurers are debited to an expense account. Recoveries are credited to a revenue account.

BRAZIL: Ceded premiums are debited to premium revenue. Recoveries are credited to claim expense. Commission on premiums ceded is credited to acquisition costs. Separate disclosure is provided for the amounts.

CANADA: The amounts of premiums ceded and reinsurance recoveries are deducted from premium revenue and claims expense, respectively.

FRANCE: Ceded premiums are debited to premium revenue. Recoveries are credited to claim expense, except reinsurance commissions, which are credited to operating expenses.

GERMANY:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are credited to claim expenses. Separate disclosure is provided for the amounts.
INDONESIA:	In accounting for the activity on a reinsurance treaty, ceded premiums and other amounts paid to reinsurers are recorded as debits to premium revenue. Recoveries are recorded as credits to claims expense.
ITALY:	In accounting for activity on a reinsurance treaty, ceded premium and other amounts paid to reinsurers are debited to premium revenue. Recoveries are recorded as credits to claim expenses. Other amounts received, such as commission and profit sharing, are recorded as credits to operating expenses. Separate disclosure is provided for the amounts.
JAPAN:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are recorded as credits to claim expense.
KOREA:	Ceded premiums and other amounts paid to reinsurers are debited to an expense account. Recoveries are credited to a revenue account.
MEXICO:	Both
NETHERLANDS:	Ceded premiums and reinsurance recoveries are shown separately in the technical account and recorded as debits to premium revenue and credits to claims respectively. Other amounts received such as commission and profit sharing are classified as “profit sharing and rebates” and/or “operating expenses”.
SOUTH AFRICA:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are recorded as credits to claims expense. Reinsurance commissions are set off against commission expense.
SPAIN:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are credited to claim expense. Premiums for ceded reinsurance and amounts recovered in respect of reinsurance treaties must be shown separately in the related technical account.
SWEDEN:	Ceded premiums and reinsurance recoveries are shown separately in the technical account and recorded as debits to premium revenue and credits to claims respectively.
SWITZERLAND:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are recorded as credits to claim expense.
UK:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are recorded as credits to claim expense.
USA:	Ceded premiums and other amounts paid to reinsurers are debited to premium revenue. Recoveries are recorded as credits to claim expense.

Long-Duration (life and annuity) Contracts

20. How are premiums reported in the financial statements?

⇒ **Reported as revenue when received.**

⇒ **Reported as increases in policy liabilities. Revenues are based on amounts charged to policyholders, earned margins, or some other factor.**

AUSTRALIA:	Under AASB 1038, where the components of premiums can be reliably measured, the savings or investment component is treated as an increase in policy liabilities and the risk or fee component as revenue when received. Where the components cannot be reliably measured, all premiums are treated as revenues.
BRAZIL:	Reported as revenue when received.
CANADA:	Long-duration life insurance premiums are reported as revenue when due, on an accrual basis.
FRANCE:	Premiums are reported as revenue when received in the financial statements.
GERMANY:	Premiums are reported as revenue when received, as far as the premiums relate to the reporting year. Premiums received and not related to the reporting year are shown as unearned premiums. Accordingly life insurance provisions are calculated by linear interpolation based on the life assurance provisions at the beginning and at the end of the insurance period in which the financial year end falls.
INDONESIA:	Premiums from long-duration contracts are recognized as income when due from policyholders.
ITALY:	Reported as revenue when received. The saving or investment component is also treated as an increase in policy liabilities and the risk component is calculated on actuarial bases.
JAPAN:	Reported as revenue when received.
KOREA:	Reported as revenue when received.
MEXICO:	Reported as income when issued.
NETHERLANDS:	In the technical account Life insurance, premium for long duration contracts is shown as earned premium own account and change in (other technical) provision own account. Earned premium own account includes premium falling due with respect to the financial year as well

as change in technical provision unearned premium. On a net basis, therefore, revenues consist of earned margins which are determined under a sufficiently conservative prospective actuarial method.

SOUTH AFRICA: In long term insurers, premiums (other than for group schemes) are recognised in the income or operating statement when due from policyholders. If the full annual premium is collectable in terms of the contract it is recognised in determining premium income for the year. Premiums receivable for group schemes should be recognised, where these are reasonably assured of collection in terms of the contract. Where collection is less certain, premiums should be recognised only as cash is received.

SPAIN: Premiums on long duration life insurance or pension contracts are reported as revenue when issued. Nevertheless, adjustments are made in the technical profit and loss account to take into consideration changes in the mathematical provisions for these policies, which are calculated as the difference between the present value of future liabilities of the insurer and the present value of the future obligations of the insured. Accordingly, these amounts are reflected in the balance sheet as an increase in the insurer's liability.

SWEDEN: Reported as revenue when received.

SWITZERLAND: As revenue.

UK: Reported as revenue when received.

USA: Gross Premiums are defined as the premium charged to a policyholder for an insurance contract.

Premiums from long duration contracts (other than universal life-type contracts and limited-payment contracts) are recognized as revenue when due from the policyholder.

Amounts assessed against policyholders for contract services, rather than premium receipts, are reported as revenue for universal life-type contracts. Revenue is reported in the period when the amounts are assessed, unless amounts are designed to compensate for services to be provided over more than one year. The amounts assessed for future services are reported as unearned revenue.

Premiums collected from limited-payment contracts are recognized over the period that benefits are provided.

Amounts received as payments for investment contracts (long-duration contracts that do not subject the enterprise to risks arising from policyholder mortality or morbidity) are reported as liabilities and accounted for in a manner consistent with the accounting for interest-bearing or other financial instruments.

21. Are all long-duration insurance contracts reported using the same accounting model, or do different contract designs use different models?

AUSTRALIA: Under AASB 1038, all contracts sold by life insurers are treated as life insurance. Under AASB 1023, all contracts sold by general insurers are treated as general insurance.

BRAZIL: Life insurers use the same accounting model for all contracts. However, an actuarial study covering the techniques to be used to measure liabilities must be approved by SUSEP.

CANADA: Life insurance enterprises use the same accounting model (policy premium method - PPM) for all long-duration contracts. However, different actuarial techniques may be used under PPM to measure liabilities for different types of contracts.

FRANCE: All long-duration insurance contracts use the same accounting model.

GERMANY: Same accounting model.

INDONESIA: Same accounting model.

ITALY: Same accounting model.

JAPAN: Same accounting model.

KOREA: Same accounting model.

MEXICO: A single accounting model is used, prescribed by the Commission: initial premiums are segregated from single and renewal premiums.

NETHERLANDS: In essence, there are differences in accounting models as well as differences in accounting treatment within a certain model. The major differences can be summarised as follows:

- the provision for life policy liabilities is calculated using a sufficiently conservative prospective actuarial method, taking into account the premiums to be received in the future and all future liabilities under the conditions of each current insurance contract. However, a retrospective method may also be applied if the technical provisions are not less than those calculated by a prospective method or if the nature of the contract does not permit the use of a prospective method;
- acquisition costs could be accounted for in three different ways (see question 7, acquisition costs). The preferred option as well as the amortisation method depends on the type of product.

Flexibility within a model relates to matters such as:

- all or part of the acquisition costs may be deferred and amortised;

- the way in which the sufficiently conservative prospective actuarial provision is obtained i.e.:
 - actuarial interest rate; to the extent that the investment income matching the technical provisions is not fixed, an interest rate scenario is employed which assumes as the starting position the yield on a basket of government loans and whereby the interest rate falls relatively sharply to the long-term actuarial interest rate of 4 %. The assumptions regarding investment policy and safety margins may vary among insurance companies;
 - systems of probabilities (such as mortality and morbidity);
 - provision for future expenses;
 - supplementary provision resulting from adequacy test by an actuary.

SOUTH AFRICA: All long duration insurance contracts are reported using the same accounting model.

SPAIN: Same accounting model.

SWEDEN: Same accounting model.

SWITZERLAND: Same accounting model.

UK: Same accounting model.

USA: See #20 and as follows:

A liability for future policy benefits relating to life contracts, other than title, certain participating life insurance contracts and universal life-type contracts, is the present value of future benefits to be paid to or on behalf of the policyholders and related expenses less the present value of future net premiums (the portion of the gross premium required for all benefits and expenses).

The liability is estimated using methods that include assumptions, such as estimates of expected investment yields, mortality, morbidity, terminations, expenses, risk of adverse deviation and other assumptions applicable at the time the insurance contracts are made.

The liability for participating contracts equals the sum of (a) the net level premium reserve for death and endowment policy benefits, (b) the liability for terminal reserves and (c) any probable loss (premium deficiency).

Liabilities for universal life-type contracts are the policyholder's account balance at the date of the financial statements. Account balances are credited with interest and charged for mortality and other policy administrative charges each month.

22. Some long-duration contracts marketed by insurance companies include little or no insurance risk, as that term is normally contemplated. How are those contracts accounted for?

⇒ **They are distinguished from insurance contracts and reported in a manner similar to financial contracts.**

⇒ **There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.**

AUSTRALIA:	In practice, we expect most insurers to treat all products in the same way. However, in determining policy liabilities, there is some flexibility in the method used. Policy liabilities for products that are complex and have a risk component will be calculated using a prospective basis. The liability for simple, predominantly investment, products will be calculated using an accumulation basis, where this provides an answer materially the same as a prospective basis.
BRAZIL:	All long-duration contracts marketed as insurance by life insurers are accounted for as insurance contracts.
CANADA:	All long-duration contracts marketed as insurance by life insurers are accounted for as insurance contracts.
FRANCE:	All long-duration contracts marketed as insurance are accounted for as insurance contracts, even if they include little or no insurance risk.
GERMANY:	There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
INDONESIA:	There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
ITALY:	There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
JAPAN:	There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
KOREA:	There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
MEXICO:	There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
NETHERLANDS:	As reflected under retroactive reinsurance treaties, contracts between an insurance company and a reinsurance company which do not involve the transfer of part of the insurance risk to which the contract relates should be accounted for in the annual accounts as financing agreements and not as reinsurance contracts. In practice, the financing versus reinsurance classification requires judgement on an individual contract

basis. In the Netherlands, the criteria set out by SFAS 113 play a crucial role in the evaluation process.

- SOUTH AFRICA: All long duration contracts marketed as insurance by life insurers are accounted for as insurance contracts.
- SPAIN: There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
- SWEDEN: There is no distinction in reported revenue. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
- SWITZERLAND: There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
- UK: There is no distinction. All long-duration contracts that are marketed as insurance are accounted for as insurance contracts.
- USA: Contracts that do not meet the risk transfer criteria of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contract*, require deposit accounting as defined in Statement of Position (SOP) 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk*. This SOP specifies the following:
- Insurance and reinsurance contracts for which the deposit method is appropriate should be classified as one of the following, which are those that:
 - Transfer only significant timing risk.
 - Transfer only significant underwriting risk.
 - Transfer neither significant timing nor underwriting risk.
 - Have an indeterminate risk.
 - At inception, a deposit asset or liability should be recognized for insurance and reinsurance contracts accounted for under deposit accounting and should be measured based on the consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer, irrespective of the experience of the contract.
 - Insurance and reinsurance contracts that transfer neither significant timing nor underwriting risk, and insurance and reinsurance contracts that transfer only significant timing risk, should be accounted for using the interest method. Changes in estimates of the timing or amounts of recoveries should be accounted for by recalculating the effective yield. The asset or liability should then be adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. The revenue and expense recorded for such contracts shall be included in interest income or interest expense.
 - Insurance or reinsurance contracts that transfer only significant underwriting risk should be accounted for by measuring the deposit

based on the unexpired portion of the coverage provided until losses are incurred that will be reimbursed under the contracts. Once a loss is incurred that will be reimbursed under this kind of contract, then the deposit should be measured by the present value of the expected future cash flows arising from the contract, plus the remaining unexpired portion of the coverage provided. Changes in the recorded amount of the deposit, other than the unexpired portion of the coverage provided, should be included in the income statement of the insured as an offset against the loss recorded by the insured that will be reimbursed under the contract and in an insurer's income statement as an incurred loss. The reduction in the deposit related to the unexpired portion of the coverage provided should be recorded by the insured and the insurer who are insurance enterprises as an adjustment to incurred losses. If the insured is an enterprise other than an insurance enterprise, then the reduction in the deposit related to the unexpired portion of the coverage provided should be recorded as an expense.

- For insurance and reinsurance contracts with indeterminate risk, the guidance in SOP 92-5, Accounting for Foreign Property and Liability Reinsurance [section 10,520] as to the open-year method, should be followed. The open-year method should not, however, be used to defer losses that otherwise would be recognized pursuant to FASB 5, Accounting for Contingencies. Under the open-year method, the effects of the contracts are not included in the determination of net income until sufficient information becomes available to reasonably estimate and allocate premiums. The open-year method requires that these effects be aggregated in the balance sheet. When sufficient information becomes available to reasonably estimate and allocate premiums, the insurance or reinsurance contract with indeterminate risk should be reclassified into one of the other three categories as an insurance or reinsurance contract that transfers neither significant timing nor underwriting risk, transfers only significant timing risk, or transfers only significant underwriting risk, as appropriate, and accounted for accordingly.

NOTE: Also see Question number 20 above, (USA response) for a discussion of investment contracts.

23. The words used to describe insurance accounting models sometimes mask subtle differences. The two matrices below include elements from several different measurement approaches. Please check the appropriate boxes and add comments as necessary.

Abbreviations:

EV: Embedded Value

MSB: Modified Statutory Basis

Note: The information concerning the USA is separated into three categories: (1) FASB 60 products (traditional products); (2) FASB 97 products (universal life-type contracts) and (3) FASB 120 products (certain long-duration participating contracts).

Variables included in determining the liability for long-duration contracts and related amortization of deferred acquisition costs	Not included or not applicable	Included best estimate basis	Included with provision for adverse deviation	Included based on prescribed data or assumptions
Policy cash inflows				
Premiums	USA (FASB 97)	AUS, CDN ^{1,2} , ESP ³ , NL ⁴ , SWE (prudence emphasized) SUI, UK (EV, opt.) USA (FASB 120)	SAF UK (MSB) UK (EV, opt.) USA (FASB 60)	BRA ^{5,6} , F GER, I, INS JPN ⁷ , KOR MEX
Surrender charges	BRA, GER, INS JPN, KOR, MEX SUI, SWE UK (MSB)	AUS, CDN ^{2,4} ESP ⁸ , NL, UK (EV, opt.) USA (FASB 97) ⁹	I, SAF UK (EV, opt.)	F
Mortality and administrative charges	GER, INS, KOR SWE	AUS, CDN ^{2,4} , ESP ¹⁰ , F, NL, UK (EV, opt.), USA (FASB 97)	I, JPN, SAF, SUI, UK (MSB), UK (EV, opt.)	BRA ^{5,6} , MEX

Variables included in determining the liability for long-duration contracts and related amortization of deferred acquisition costs	Not included or not applicable	Included best estimate basis	Included with provision for adverse deviation	Included based on prescribed data or assumptions
Policy cash outflows				
Death benefits		AUS, ESP ¹¹ , NL, SWE (prudence emphasized), UK (EV, opt.), USA (FASB 97 in excess of account balances, FASB 120)	CDN ¹ , SAF, SUI, UK (MSB), UK (EV, opt.), USA (FASB 60)	BRA ^{5,6} , F, GER, I, INS, JPN ¹² , KOR, MEX
Payments on policy surrender	JPN, KOR, MEX, SUI, UK (MSB)	AUS, ESP ¹³ , NL, SWE (prudence emphasized), UK (EV, opt.), USA (FASB 120)	CDN ¹ , SAF, UK (EV, opt.), USA (FASB 60)	BRA ^{5,6} , F, GER, I, INS, MEX
Commissions	BRA ¹⁴ , GER, I, INS ¹⁵ , JPN ¹⁶ , NL (opt.) ¹⁷	AUS, CDN ¹ , ESP, F, NL (opt.), SUI, SWE (prudence emphasized), UK (MSB), UK (EV, opt.) USA (FASB 97, 120)	SAF, UK (EV, opt.), USA (FASB 60)	KOR, MEX, NL (opt.)
Other direct costs related to policies in force	BRA, GER, INS, SUI	AUS, ESP, F, I, JPN, NL, SWE ¹⁸ , UK (EV, opt.), USA (FASB 97, FASB 120)	CDN ^{1,19} , SAF, UK (MSB), UK (EV, opt.), USA (FASB 60)	KOR, MEX
Proportionate share of other costs	BRA, CDN ^{1,19} , GER, INS, JPN, MEX, SAF, SUI	AUS, ESP, F, I, NL, SWE (prudence emphasized), UK (EV, opt.), USA (FASB 97, 120)	UK (MSB), UK (EV, opt.), USA (FASB 60)	KOR
Regular policyholder dividends	BRA, KOR, JPN, MEX, SAF, SWE, UK ²⁰ (MSB), USA (FASB 97)	AUS, CDN ¹ , ESP ²¹ , NL, UK (EV, opt.), USA (FASB 120)	SUI, UK (EV, opt.), USA (FASB 60 if applicable)	F, GER, I, INS
Terminal policyholder dividends	BRA, JPN, KOR, NL, SAF, SUI, SWE, UK (MSB) ²⁰ , USA (FASB 97)	AUS, CDN ¹ , ESP ²¹ , UK (EV, opt.), USA (FASB 120)	UK (EV, opt.), USA (FASB 60 if applicable)	F, GER, I, INS, MEX
Additional statutory solvency margins	AUS, BRA, CDN ¹ , ESP, F, INS, KOR, SUI, SWE, UK (EV),	UK ²²	SAF	JPN, NL ²³

In describing the operation of this accounting model	Applies	Not applicable
The liability computation is:		
A prospective computation based on future inflows and outflows	AUS (see answer to question 22), BRA ²⁴ , CDN, ESP ²⁵ , F (traditional), GER, I, INS, JPN (traditional), KOR, MEX, NL ²⁶ , SAF, SUI, SWE, UK (MSB, EV) USA (FASB 60) (locked-in assumptions) USA (FASB 120) ²⁷	USA (FASB 97)
A retrospective computation based on amounts accrued to policyholders	AUS (see answer to question 22), ESP ²⁵ , F (investment and separate accrued contracts), JPN (group pension), KOR, MEX, NL, SAF, (SUI), USA (FASB 97)	BRA, CDN, GER, I, INS UK ²⁸ (MSB), SWE, UK (EV), USA (FASB 60, 120)
Designed to measure the fair value of liability and related value of policies in force	SAF, UK (EV, just liabilities in force)	BRA, CDN ²⁹ , ESP, F, GER, I, INS, JPN, KOR, MEX, NL ³⁰ , SUI, SWE, UK (MSB), USA (FASB 60, 97, 120)
Profit emerges based on:		
Margins on premiums	AUS ³¹ , ESP, I, INS, MEX, NL, SAF, UK (MSB), USA (FASB 60)	BRA, CDN ³² , F, GER, JPN, KOR, SUI, SWE ³³ , UK (EV), USA (FASB 97, 120)
Release from provisions for adverse deviation	CDN, ESP, JPN, SAF, UK (MSB), UK (EV), USA (FASB 60)	BRA, F, GER, I, INS, KOR, MEX, NL, SUI, SWE ³³ , USA (FASB 97, 120)
Interest rate spreads	BRA, CDN, ESP ³⁴ , F, GER, I, INS, JPN, MEX, NL, SAF, SUI (indirect), UK (MSB), USA (FASB 97, FASB 120)	KOR, SWE ³³ , UK (EV), USA (FASB 60)
Margins on mortality, surrender, and policy administration	BRA, CDN, ESP ³⁵ , F, GER, I, INS, JPN, MEX, NL, SAF, SUI (indirect), SWE (Unit linked), UK (MSB, EV), USA (FASB 97, FASB 120)	KOR, USA (FASB 60)
Changes in the value of future profits from in-force policies	INS, SAF, UK (EV)	BRA, CDN, ESP, F, GER, I, JPN, KOR, MEX, NL, SUI, SWE ³³ , UK (MSB), USA (FASB 60, 97, 120)

In describing the operation of this accounting model	Applies	Not applicable
Discount rate is based on:		
Expected earnings rates from investments supporting policy liabilities	AUS, CDN ³⁶ , ESP ³⁷ , INS, UK (EV,opt. to risk adjusted rates), USA (FASB 60) (locked-in), USA (FASB 120) (reserves-locked in and DAC adjusted for actual)	BRA, F, GER, I, JPN, KOR, MEX, NL ³⁸ , SAF, SUI, UK (MSB), USA (FASB 97)
Expected earnings rates from investments supporting policy liabilities, with adjustments (please describe)	MEX, NL, SAF (plus a margin), UK ³⁹ (MSB)	BRA, CDN ³⁶ , ESP, F, GER, I, INS, JPN, KOR, SUI, UK (EV), USA (FASB 60,97, 120)
Rates that accrue to policyholder balances or dividend funds	CDN ⁴⁰ , SAF, (SUI), USA (FASB 97)	BRA, ESP, F, GER, I, INS, JPN, KOR, MEX, NL, UK (MSB, EV), USA (FASB 60, 120)
Rates prescribed by regulatory authorities	BRA, F, ESP ³⁷ , GER, I, INS, JPN ⁴¹ , KOR, MEX, NL, SUI, SWE ⁴² , UK (MSB)	CDN, SAF, UK (EV), USA (FASB 60, 97, 120)
Risk-adjusted rates (please describe)	NL, SAF (may be added to expected earnings), UK (EV, opt. to use expected earnings rates from investments supporting policy liabilities ⁴³)	BRA, CDN ³⁶ , ESP, F, GER, I, INS, JPN, KOR, MEX, SUI, UK (MSB), USA (FASB 60, 97,120)
The effect of changes in actuarial assumptions:		
Is recognized in current period net income	CDN, ESP, F, GER, I, INS, JPN, NL ⁴⁴ , SAF, SWE, UK (MSB), UK (EV), USA (FASB 97, FASB 120)	BRA, KOR, MEX, SUI, USA (FASB 60)
Is not recognized, or is recognized only if a loss exists	BRA, SUI, SWE ⁴⁵ , USA (FASB 60)	CDN, ESP, GER, I, INS, JPN, KOR, MEX, NL, SAF, UK (MSB), UK (EV), USA(FASB 97,120)
Is deferred and amortized	AUS ⁴⁶ , F (if authorized)	BRA, CDN, ESP, GER, I, INS, JPN, KOR, MEX, NL, SUI, SAF, UK (MSB), UK (EV), USA (FASB 60, 97, 120)
The effect of experience gains and losses:		
Is recognized in current period net income	AUS, BRA, CDN, ESP, F, GER, I, INS, JPN, MEX, NL ⁴⁷ , SAF, SWE, UK (MSB, EV), USA (FASB 60, 97, 120)	KOR, SUI
Is deferred and amortized	NL, UK (EV) ⁴⁸	BRA, CDN, ESP, F, GER, I, INS, JPN, KOR, MEX, SAF, SUI, UK (MSB), USA (FASB 60, 97, 120)

In describing the operation of this accounting model	Applies	Not applicable
Amounts that are expected to be declared as policyholder dividends in future periods:		
Are incorporated in measurement of the liability (see above)	AUS, CDN, ESP, I, INS, KOR, NL ⁴⁹ , SAF, UK (EV), USA (FASB 60), USA (FASB 120-terminal dividends are accrued)	BRA ⁵⁰ , F, GER, I, JPN, MEX, SUI, UK (MSB), USA(FASB 97)
Are reported as a separate liability, perhaps under a heading line "Fund for future appropriations"	AUS ⁵¹ , GER, KOR, SUI, SWE, UK (MSB), USA (FASB 60)	BRA ⁵⁰ , CDN, ESP, F, I, INS, JPN, MEX, NL, SAF, UK (EV), USA (FASB 97, 120)
Are not reported as liabilities	AUS, F, JPN (mutuals), MEX, UK (MSB)	BRA ⁵⁰ , CDN ⁵² , ESP, GER, I, INS, JPN (stock companies), KOR, NL, SAF, SUI, UK (EV), USA (FASB 97)

¹ Under the Canadian policy premium method, there are no deferred acquisition costs to amortize.

² There is no provision for adverse deviation applied directly to estimated cash inflows for premiums, surrender charges and mortality and administrative charges, but the margin for adverse deviation applied to the assumptions for mortality, termination and other factors affecting cash outflows also affect the estimates of the inflows.

³ Premiums are estimated in accordance with the terms of the policies.

⁴ Appropriate provisions should be made for future expenses relating to existing insurance contracts, taking account of expected trends, including inflation forecasts. This also includes a proportionate share of other indirect costs.

⁵ Applicable only to annuity policies. Individual life insurance is usually written under one-year term life policy.

⁶ Calculation is based on mortality assumptions, approved by SUSEP.

⁷ Alternative methods can also be used with the approval of the Financial Supervisory Authority.

⁸ Policies normally establish limits for surrenders during the early years of the contract.

⁹ Reserves are not reduced for surrender charges. The surrender charges are recognized in income when realized.

¹⁰ The technical bases for each product establish the actuarial assumptions made and must be duly prepared and filed prior to their commercialisation. These technical bases set out the administration charges to be included in the cost of the policy and, accordingly, taken into consideration in the calculation of the necessary provisions. These expenses must be monitored to ensure that they do not in practice deviate from those incurred over the life of the policy.

¹¹ The risk is taken into consideration on the basis of appropriate mortality tables.

¹² Alternative methods can also be used with the approval of the Financial Supervisory Authority.

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- ¹³ Payments on policy surrender are not strictly speaking a component in the calculation of provisions for life insurance. However, where the surrender value is guaranteed, the related provisions for life insurance must be equal at least to that amount. Also, all deferred acquisition costs of the policy would have to be written off on the surrender thereof.
- ¹⁴ Non deferral acquisition costs.
- ¹⁵ Commissions can only be capitalized and amortized, if the Company uses the Net Level Premium method in its calculation of the liabilities for future policy benefits.
- ¹⁶ Some insurance companies use a Zillmer method.
- ¹⁷ Commissions could be charged directly to the profit and loss account or deducted from the provision for life policy liabilities. Depending on the nature of the policy, the deferred acquisition costs may be amortised by one of the following methods:
- over a maximum period equal to the period of premium payment;
 - over a maximum period equal to the contract term;
- as a function of the result achieved on the contract each year (unit-linked insurance policies)
- ¹⁸ Understood to include pension payments acc. to policy, prudence emphasized.
- ¹⁹ Under the Canadian policy premium method, the costs entering into the computation of the actuarial liability for policies in force include policy benefits, policyholder dividends, experience refunds to policyholders, policy-related expenses and direct taxes (premium taxes). Costs such as income taxes and marketing overhead expenses are excluded.
- ²⁰ Future bonuses/dividends not included as a liability.
- ²¹ Where the terms of the policy establish profit sharing arrangements, whether of a technical or financial nature, the related amounts are not included in the initial provision for life insurance policies. Nevertheless, each year the entity is required to increase the provision set aside if the profit sharing conditions established in the policy are met. This would normally be because of the generation of surplus financial income over the amount initially estimated or because claims were less than estimated.
- ²² Additional “reserves” are included in the statutory solvency basis e.g. reserves to cover adverse investment changes, closure of new business costs etc. These costs are reserves in the modified statutory accounts.
- ²³ Additional solvency margins concern the supplementary provision for life policy liabilities which result from the mandatory adequacy test by the actuary.
- ²⁴ Mathematical reserves/policy values for annuity policies are calculated based on methods generally accepted by actuaries. The prospective method based on actuarial assumptions is usually adopted.
- ²⁵ As a general rule a prospective method should be applied. Retrospective methods may, however, be applied where the application of a prospective method would not be possible, or it can be shown that the provision made using retrospective methods would be higher than if a prospective method had been applied.
- ²⁶ Instead of a sufficiently conservative actuarial method, a retrospective method may also be used provided the technical provisions calculated by that method are not less than those calculated by a prospective method or if the nature of the contract concerned does not permit the use of a prospective method.
- ²⁷ Based on fixed net level statutory assumptions of mortality and interest to derive a proxy/surrogate for a universal life-type account balance.
- ²⁸ Not generally, but applies to certain policy types.
- ²⁹ The policy premium method used in Canada may result in reported liability amounts approximating fair value, even though the method was not specifically developed with this

result as its objective. Whether liability amounts determined under the policy premium method are necessarily fair values remains the subject of ongoing debate.

³⁰ Some companies disclose the fair value of liability and related policies in force in the notes to the accounts.

³¹ Based on nominated “profit carriers”, which could be premiums, claims, investment returns, etc. There is usually only one carrier per product.

³² Under the policy premium method, profit on a policy emerges when, and to the extent that, premiums due on the policy in a period plus any reduction in the related actuarial liability exceed policy costs incurred in the period plus any increase in the related actuarial liability. The actuarial liability equals the present value of estimated policy benefits and costs less the present value of future premiums (certain elements being adjusted by a margin for adverse deviation). The reported liability is a measure of the amount which, together with future premiums and investment income, will be required to discharge policy obligations and pay expenses related to policy administration. Profit emerges as a function of the amount and timing of policy-related cash inflows and outflows, including differences between the amount and timing of actual cash flows relative to previous estimates and differences between past and current estimates of future cash flows.

³³ Long-term insurance only in non-profit insurance companies.

³⁴ Normally, profit sharing arrangements established in policies provide for payments to policyholder where the yield on related investments is higher the interest rate used in the calculation of provisions. Nevertheless, the policyholder does not receive 100% of the difference, resulting in profits for the insurer.

³⁵ In the event of unforeseen deviations.

³⁶ Suitable provision is made for expected defaults, investment expenses and adverse deviation in expected investment returns. The rate of return is necessarily a risk-adjusted rate by virtue of being a market-related rate.

³⁷ As a general rule, the interest rate published each year by the Insurance Regulatory Authority is used. This rate is calculated on the basis of market rates for the last three years. Nevertheless, if the yield on an entity’s investments is lower at that rate, the actual yield obtained should be applied in the calculation of provisions for life insurance policies. Also, specific investments may be linked to certain insurance contracts in such a manner that cash flows coincide. In this situation the provision for life insurance policies may be calculated at the rate obtained from the linked investments.

³⁸ The maximum discount rates are established by the Insurance Supervisory Board. In general, a discount rate of 4 % is applied. However, if policy liabilities are supported by fixed interest investments the expected earnings rates may be used as discount rate. The use of this rate is conditioned and amongst other safety margins should be applied depending on the risk profile of the investment (Zone A or B, commercial/municipality/government etc.).

³⁹ Not permitted to take a rate in excess of 97.5% of the income yield on assets. For equities securities, future capital appreciation cannot be taken into account. For investments with a duration of more than 3 years, return cannot exceed 6% plus ¼ of the excess of 6%.

⁴⁰ The rates that accrue on policyholder balances or dividend funds are used to discount policy liabilities only when they are based on policy dividend scale rates.

⁴¹ Alternative methods can also be used with the approval of the Financial Supervisory Authority.

⁴² Regulator sets maximum rates of losses.

⁴³ There is no agreed basis of calculating a risk discount rate.

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- ⁴⁴ In general, a change in actuarial assumptions will not be regarded as a change in “accounting principles”. However, it usually concerns an improvement of the quality of the “best estimate” i.e. a change in estimation. The results of a change in estimation are recognised in the current period net income.
- ⁴⁵ Some possibilities for gradual recognition.
- ⁴⁶ Margins carried forward are squeezed until they become zero; beyond this point losses are recognized immediately on groups of related products.
- ⁴⁷ In practice, the technical provisions for long-duration contracts are based on conservative systems of probabilities and expense loading. The experience gains (and losses) relating to a specific year are recognised in that year but any likely favourable margins with respect to future years on the basis of current experience are amortised and released when realised.
- ⁴⁸ In some cases, investment return variations are deferred and amortized over a five year period.
- ⁴⁹ Policyholder dividends in future periods are incorporated in the measurement of the technical provision and classified separately.
- ⁵⁰ There is no rule. Some companies include together with the mathematical provision.
- ⁵¹ Policyholder “retained earnings” that must be paid to participating policyholders under Australian law are recognized as a liability.
- ⁵² Life insurance enterprises present a separate balance for the interest of policyholders in participating policies, distinct from the enterprise’s actuarial liability to those policyholders. In the case of a stock life insurance enterprise, the participating policyholders’ interest is presented as equity but separately from shareholders’ equity. In the case of a mutual life insurance enterprise, the participating policyholders’ interest is reported as a separate element within policyholders’ equity.