

# Press Release

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## **Insurers urge accounting standards setters to listen to the industry as new standard is developed**

The International Accounting Standards Board (IASB) needs to assure the insurance industry that it won't decide the next phase behind closed doors following the consultation closing on 16 November 2007 as it develops a new standard for insurance contracts, warns Neil Coulson, a partner and insurance industry specialist at accountancy firm CLB Littlejohn Frazer.

Neil Coulson said: "Insurance companies are very concerned that the IASB will revise its proposals on how insurance contracts should be dealt with in isolation. As this is a standard specific to insurers it is vital that the IASB is attuned to the industry in order to draft proposals that are practical to implement and will improve the general understanding of insurance accounts by the investment community.

"The current proposals require significant changes to ensure they are based upon expected behaviour of insurers in the real world rather than an abstract accounting hypothesis - which could make important numbers on the balance sheet highly subjective. There needs to be some practical interaction between insurance companies and the IASB in order to iron this out.

"Although the discussion paper is a very useful starting point there are a lot of issues of detail that will require work to resolve. The biggest concern is the proposed method of valuing insurance liabilities. In order to come up with a valuation figure, the proposals require insurance companies to estimate the price they would pay a third party to take over their liabilities - often the largest number on a company's balance sheet. But this is not logical as such transactions hardly ever happen.

"The value of liabilities is too important a figure in insurance company accounts to be based on an intention that no company would follow and therefore would require hypothetical modelling. In real life, insurance companies keep their liabilities and administer and settle them themselves. Therefore, the fair value of liabilities should be based on an exit through settlement basis rather than an exit through sale<sup>1</sup>.

"A decision due in 2008 as to whether the US standard setter will seek to enter into joint development of a standard on insurance contracts may well result in a delay to the next phase of the consultation period. This may particularly be the case if the US joins the project as there are a number of areas where the US is likely to have differences of opinion as to the solution. At the same time there is a degree of urgency from life insurers for the IASB to come up with a fix to the current accounting standards which are considered unsatisfactory, and lead to the secondary reporting regime of embedded values.

"If the IASB does decide to press on, it seems likely that many responses will suggest the discussion paper will need significant modification. Rather than disappearing behind the scenes to pull out of the hat a draft standard in several months time, the IASB should work in conjunction with the insurance industry to produce a workable revision - but there is still a long way to go."

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**Notes to editors:**

<sup>1</sup>Fair value through exit by sale seeks to calculate a value of liabilities by how much a third party would charge to assume those liabilities. As insurers seldom seeks to sell all its liabilities in practice this would require hypothetical estimates of prices to be developed. Fair value through exit by settlement would be closer to reality for most insurers where they will ultimately dispose of their liabilities by paying claims to policyholders.

**About CLB Littlejohn Frazer**

CLB Littlejohn Frazer is an independent top-30 firm of chartered accountants and business advisors based in London's Canary Wharf. It is a member of Polaris International, a worldwide association of independent accounting firms located throughout the world.

CLB Littlejohn Frazer's financial services division has over 100 years of experience in the insurance market and services clients ranging from insurance companies to international reinsurers and Lloyd's brokers. The firm's experience in the broking environment covers audit, tax, compliance and transaction services. Broking clients include numerous brokers, syndicate service companies and claims handling companies within the London market.