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IFRS...IASB...IAA... What's New on the Int'l Front?

—Douglas S. Van Dam, FSA, MAAA, CLU, ChFC, Manager Actuarial Services

Over the past six months, since I last wrote about International Financial Reporting Standards (IFRS), there have been two major developments. At the same time, progress toward a new IFRS or FAS on insurance has been slow.

The big news on the international accounting front is that the U.S. Securities and Exchange Commission (SEC) has proposed a road map for all U.S. public companies to report using IFRS (International Financial Reporting Standards). IFRS are adopted by the International Accounting Standards Board (IASB). According to the road map, IFRS and IASB will replace FAS and FASB in 2014. That sounds like quite a bit of time, but the IASB is still working on an insurance standard.

In November the FASB agreed to join the IASB in working on this new insurance standard. The reason FASB will now work on the insurance standard is that insurance brings up several issues that have an impact on other projects that FASB and IASB are working on jointly. The IASB meets monthly but only discussed insurance twice in the last half of 2008, following up on their 2007 Discussion Paper. In 2009 they will start making decisions on what will go into an Exposure Draft, with the goal of a Final Standard in May 2011.

There were two meetings last fall on international accounting. I was lucky enough to be PolySystems' liaison for both of those meetings. Both meetings convened in international locations that I was more than thrilled about visiting.

It is valuable for PolySystems to make an appearance at such meetings. It keeps us up-to-date on the current thinking of the IASB and keeps us one step ahead in terms of being ready for IFRS. The new international standard will be a major change and philosophically different from the current U.S. accounting standards based on "matching" principles that have been in place for decades. The greater the preparation that can be made before decisions are finalized, the easier the work will be when the international standards become the standard. PolySystems will make the transition happen as smoothly as possible for you.

My first stop was at the committee meetings of the International Actuarial Association (IAA) in Cyprus. At the IAA meeting, I attended one session of the Enterprise and Financial Risk Committee. The question discussed at this session was



HAPPY NEW YEAR

“How do actuaries address risk in ways that are unique?” It was pointed out that actuaries have experience with complex systems methodologies and the use of these methodologies to track risk. This was contrasted with the bank method of ERM which is based on the ability to trade risk, but not all risks are tradable and the liquidity crisis is affecting even previously tradable risks. The value of the actuarial control cycle was discussed, with its ability to add new information to your risk models. Others pointed out that this only works with certain risks, and it is important to continue to do “what if” models.

The Accounting Committee spent most of its time discussing actuarial aspects of non-insurance IFRS and the impact they could have on insurance accounting. The Risk Margin Working Group is nearly ready to finalize its paper *Measurement of Liabilities for Insurance Contracts: Current Estimate and Risk Margins*.

The second stop on my international expedition was London, England. London hosted the Insurance Working Group of the IASB. One of their topics of discussion was whether the method in *Preliminary Views* for setting assumptions, “Exit Value,” should be replaced with “Fulfillment Value.” The advantage of Fulfillment Value is that it allows companies to use more of their own experience in setting reserves. Session attendees agreed that moving off Exit Value was a good idea, but there was not a consensus on what Fulfillment Value should mean. One thing we are sure about, though, is actuaries in the IAA and participants in the IWG are spending a lot of time thinking about risk measurement.

A second topic of discussion at the Insurance Working Group centered around the discount rate to be used. The North Americans at the meeting were concerned about the potential for day-one losses if a

risk-free interest rate is used to discount spread-based insurance liabilities. The Europeans have already moved to using a risk-free rate in their calculation of embedded value. This is one such difference of opinion that will slow down the work towards a single international standard.

While the final standard is not yet known, now is a good time to talk to PolySystems. You can begin projects to improve the accuracy and the processing speed of your projection capabilities. Have you tried our Delphi stochastic projection capabilities yet? Our Delphi system is fully integrated with our valuation platform. Performing all of your runs within your existing valuation framework eliminates extra steps. A strong valuation and projection engine will be beneficial for all of the work that you do.

Measure is PolySystems’ experience study system. Increasing your experience reporting capabilities will help you develop current estimates. Measure is available for all lines of business and is fully integrated with our Master and Delphi systems.

PolySystems has added a number of functions to our projection systems in the past couple of years that support the growing demands of today’s environment. We added greater flexibility and control in assumptions with bundle codes. We added greater speed with our Grid and Compiled User Formulas. We added analytical capabilities with our Cashflow Analyzer. Look for even more enhancements coming soon.

Contact Bob Keating if you are interested in learning more or to arrange a software demonstration.

Also, feel free to contact me with your questions on IFRS via email at DVanDam@polysystems.com or 312.332.5670. 🌐

Marketing Corner Speaking of Measure...

—Jackie Smith, Actuarial Assistant

PolySystems clients find our support for life, UL, annuity and health experience studies to be extremely valuable. We recently added IncomePay studies to the line-up.

Our IncomePayMeasure system has been designed, developed, tested and is ready to be delivered. For more information on how this system can benefit your organization, contact Bob Keating via email at BKeating@polysystems.com or 312.332.5670. 🌐