A PUBLIC POLICY WHITE PAPER

Considerations in Implementing the FASB Short-Duration Contract Disclosures

December 2016

Developed by the Short-Duration Contracts Work Group
of the Financial Reporting Committee
of the Risk Management and Financial Reporting Council
of the American Academy of Actuaries

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White Paper on Considerations in Implementing the FASB Short-Duration Contract Disclosures

This white paper was prepared by the Short-Duration Contracts Work Group of the Financial Reporting Committee within the Risk Management and Financial Reporting Council of the American Academy of Actuaries. This white paper provides an overview with some of the challenges and issues associated with implementing the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2015-09, *Financial Services—Insurance (Topic 944) Disclosures about Short-Duration Contracts*.

This white paper is intended for use as a reference tool only and is not a substitute for any legal or accounting analysis or interpretation of the regulations or statutes. This white paper is not a promulgation of the Actuarial Standards Board (ASB), is not an actuarial standard of practice, is not binding upon any actuary, and is not a definitive statement as to what constitutes appropriate practice or generally accepted practice in the area under discussion. In addition it is not a practice note. Events occurring subsequent to this publication of the white paper, including future regulatory or legislative activity, may make the challenges or issues described in this overview irrelevant or obsolete.

We welcome comments and questions. Please send comments to Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting, at nigam@actuary.org.

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I. Introduction

The accounting for short-duration insurance contracts under U.S. Generally Accepted Accounting Principles (U.S. GAAP) has remained relatively unchanged since Financial Accounting Standard (FAS) 60, *Accounting and Reporting by Insurance Enterprises*, was initially published in 1982 and effective for year-ends beginning after Dec. 15, 1982. From 2007 through 2013 the Financial Accounting Standards Board (FASB) explored, through a joint project with the International Accounting Standards Board (IASB), changing the accounting for insurance contracts, including short-duration contracts, to provide users of financial statements with more decision useful information. The two boards were unable to reach agreement on a consistent accounting model or models for insurance contacts. However, the FASB published an exposure draft in June 2013 that would have changed the accounting model for short duration contracts.

Most respondents to the FASB proposals in the exposure draft were supportive of keeping the model that has been in place since FAS 60, indicating this longstanding approach to measuring short-duration contract liabilities was reasonable. Investment analysts, in particular, indicated they would not find the proposal an improvement over current U.S. GAAP. However, financial statement users indicated they would benefit from additional disclosures to increase transparency around the estimates of unpaid claim liabilities. Based on this feedback, the FASB decided not to change the measurement approach for short-duration contracts but instead make changes to disclosure requirements, resulting in the publication of Accounting Standards Update (ASU) 2015-09.

The FASB stated in the Basis for Conclusions of the ASU[1] that the objective of these new disclosure requirements were to:

- *"Increase transparency of significant estimates made in measuring the liability for unpaid claims and claims adjustment expenses;"*
- *"Improve comparability by requiring consistent disclosure of information;" and*
- *"Provide financial statement users with information to facilitate analysis of the amount, timing and uncertainty of cash flows arising from contracts by insurance entities and the development of loss reserve estimates."*

The ASU is effective for public business entities for annual reporting periods starting after Dec. 15, 2015, and interim reporting periods beginning after Dec. 15, 2016. For all other entities the changes are effective for annual reporting periods beginning after Dec. 15, 2016, and interim reporting periods beginning after Dec. 15, 2017.

The key disclosures required under the ASU that may involve the work of actuaries are:

- Quarterly roll-forwards of the liability of unpaid claims;

[1] ASU 2015-09 BC2

- Annual paid loss and allocated loss adjustment expense (ALAE[2]), and ultimate incurred loss and ALAE development triangles by accident year, for up to 10 accident years, net of reinsurance and reconciled to the carried reserves in the current reporting period;
- Current reported claims frequency by accident year including descriptions of methodologies used to determine the claim frequency;
- Current loss and loss adjustment expense (LAE) incurred but not reported (IBNR) by accident year, net of reinsurance, including descriptions of methodologies used to determine the IBNR estimates;
- Explanations of significant changes in methods and assumptions used to calculate reserves and derive reported claim frequency and IBNR; and
- Average annual percentage payout of incurred claims by age of accident year.

With the exception of the quarterly roll-forwards and the significant changes in assumptions, the disclosures listed above are required to be disaggregated or aggregated in a manner such that *"useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics."*[3] ASU 2015-09 also requires that no information be presented that aggregates or combines data from different financial reporting segments.

Under ASU 2015-09, the information disclosed for reporting periods prior to the current period is considered supplementary information. While this means the information is "unaudited," because it is still required under U.S. GAAP, it will be subject to certain limited procedures by the external auditor. For example, for public business entities, the external auditor will perform procedures as described in the Public Company Accounting Oversight Board's (PCAOB) auditing standard AU 558, *Required Supplementary Information*[4].

AU 558 indicates that required supplemental information is regarded by standard-setters as essential to financial reporting. The limited procedures required of the auditor include inquiring of management how the information was prepared and comparing supplemental information for consistency with those inquiries of management and other knowledge obtained through the audit. While an adverse finding may not change an auditor's opinion, the auditor is required to add an explanatory paragraph to the audit report if any of the following situations apply:

- The required supplementary information has been omitted by the preparer;
- The information has been prepared or presented in a way that departs materially from the guidelines;
- The auditor was unable to complete the limited procedures; or
- There are unresolved concerns with whether the supplementary information conforms with the required guidelines.

[2] Allocated Loss Adjustment Expense (ALAE), also referred to as allocated claim adjustment expense. ALAE is not defined in the ASU or in Accounting Standards Codification. See Section III.B. Annual Development Triangles for a complete discussion. Claim adjustment expenses (also known as loss adjustment expenses, or LAE) that are not classified as ALAE are classified as ULAE (Unallocated Loss Adjustment Expense).

[3] ASU 2015-09, paragraph 944-40-50-4H

[4] http://pcaobus.org/Standards/Auditing/Pages/AU558.aspx

This white paper was drafted prior to observing the ASU in practice. This white paper is intended to outline the new disclosures under ASU 2015-09 and highlight areas where decisions will need to be made by the preparers of these disclosures. Actuaries working on these disclosure requirements will likely collaborate with accounting professionals. This is important so the appropriate information required for the disclosures and any materiality level impacting the level of detail of the disclosure are openly discussed and agreed upon.

Within this white paper we present several alternative approaches to address certain ASU requirements. The Securities and Exchange Commission (SEC) has communicated with the American Institute of Certified Public Accountants (AICPA) that some of these approaches are viewed as being consistent with the ASU objective, while it views others as inconsistent, absent unique facts and circumstances. It will be vital for actuaries working on these disclosures to collaborate with accounting professionals to ensure there is a clear understanding of the approach being taken to produce the disclosures. So doing will allow the accounting professionals to determine whether the approaches are in accordance with the feedback provided by the SEC (where applicable).

II. Primary Source Materials

This white paper is intended to outline FASB's short-duration contract disclosure requirements and explain some considerations for their implementation. Primary source materials referenced in this overview include:

A. Accounting Standards Update (ASU) 2015-09, *Financial Services—Insurance (Topic 944) Disclosures about Short-Duration Contracts*, FASB, May 2015
B. SEC Industry Guides—Guide 6: "Disclosures Concerning Unpaid Claims and Claim Adjustment Expenses of Property Casualty Insurance Underwriters"[5]
C. PCAOB Interim Audit Standard AU 558, *Required Supplementary Information*[6]
D. Highlights of the Nov. 1 and 17, 2016, meetings between the AICPA's Insurance Experts Panel and the SEC[7]

This overview discusses considerations and issues the work group believes to be relevant to the preparation of the disclosures. This overview is also intended to encourage discussion on the issues set forth below, providing a framework to foster dialogue among the actuaries and other stakeholders, such as management and auditors involved in the process.

III. Considerations When Implementing the Disclosures

A. Quarterly Reserve Roll-Forwards

ASU 2015-09 requires interim reporting period roll-forwards in addition to the roll-forwards required under preexisting U.S. GAAP for annual reporting periods.

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[5] https://www.sec.gov/about/forms/industryguides.pdf
[6] http://pcaobus.org/Standards/Auditing/Pages/AU558.aspx
[7] http://www.aicpa.org/InterestAreas/FRC/IndustryInsights/DownloadableDocuments/INS/INS_EP_Minutes/2016/INS_EP_November_2016_Meeting.pdf (Dec. 7, 2016)

Under pre-existing U.S. GAAP, a roll-forward of the liability for unpaid claims (including all claim adjustment expenses) is required when reporting on an annual basis (e.g., the year-end financial statements). The current requirement includes the unpaid claims balance for both short- and long-duration insurance contracts and is presented in a tabular format as follows:

- Beginning unpaid claim liability balance, gross of reinsurance, amounts ceded to reinsurance and then the net of reinsurance amounts;
- Incurred claims in the period, net of reinsurance, with current accident year and changes to prior accident year liabilities shown separately;
- Paid claims in the period, net of reinsurance, also having current year and prior year shown separately; and
- Ending unpaid claim liability, net of reinsurance, amounts ceded to reinsurance and then gross of reinsurance.

Pre-existing U.S. GAAP also requires an explanation for incurred claims due to changes in prior period estimates and the impact, if applicable, of retrospective rating provisions (e.g., return premiums on such amounts).

While the existing requirement is for annual roll-forwards, there is further guidance under U.S. GAAP that requires interim disclosures when there are significant changes in estimates. Further, some companies voluntarily prepare loss reserve roll-forwards in their quarterly statements.

ASU 2015-09 requires that a roll-forward similar to the annual one be included in interim reporting periods (e.g., quarterly financial statements). According to the ASU, the key changes from the annual table are:

- The roll-forward will have a year-to-date presentation, with the beginning balance being the prior year-end unpaid claim liability and the paid and incurred amounts being the year-to-date amounts.
- For health insurance claims only, the new guidance further requires that such roll-forwards be presented in a disaggregated manner; with the guidance for disaggregation the same as that used for the triangle disclosures (see later discussion).

B. Annual Development Triangles

The following discussion is from the Property & Casualty (P&C) perspective. Health issues for this topic will be discussed in Section H.

ASU 2015-09 includes a new loss development triangle disclosure. These required FASB triangles are different from the National Association of Insurance Commissioners (NAIC) triangles in Schedule P and the table historically required by the SEC (in the SEC's industry-specific guidance to P&C companies, known as Guide 6). Note that the SEC will no longer require the Guide 6 table for those meeting the new ASU loss development triangle disclosure requirement.[8]

[8] Question 11310.1 of the SEC's Financial Reporting Manual, available at https://www.sec.gov/divisions/corpfin/cffinancialreportingmanual.pdf as of Dec. 6, 2016

The following is a list of some of the basic requirements. A summary table of how these basic requirements compare to the current NAIC and historic SEC (Guide 6) requirements is also included.

Basic requirements for the annual development triangles including comparisons to preexisting similar disclosures

The following bullets address the basic requirements in terms of when information is required, what is required, and information on LAE, IBNR, lines, and audited data:

- Year-end GAAP financial statements, starting with year-end 2016, for public business entities. Non-public business entities have an additional year before this is required (i.e., year-end 2017).

- Cumulative incurred and paid accident year triangles, net of reinsurance, for 10 accident years (current and nine prior),[9] similar to Schedule P, Parts 2 and 3. (Incurred here is "ultimate incurred," which includes case plus Bulk & IBNR, as in Schedule P, Part 2.)

  There is no "all prior" line in these triangles. Instead, for all prior accident years, the total outstanding liabilities are shown at the bottom of the incurred and paid triangles. Those "all prior" liabilities, when added to the difference between the latest incurred and paid for the accident years shown, typically would equal the total net outstanding liabilities for the business shown in the triangle. Otherwise, any remaining liabilities would be reported in the required reconciliation exhibit.

  - The triangles required under the ASU are for loss and ALAE. Unallocated Loss Adjustment Expenses (ULAE) are not included in the FASB triangles. ALAE is not defined in the ASU nor in Accounting Standards Codification. ALAE though is a commonly used term in the property/casualty industry. That said, different insurers and different statistical plans can have somewhat different definitions of ALAE. The most common definition is claim adjustment expenses that can be or are allocated to individual claims, though some statistical plans require ALAE to include in-house defense counsel, forcing an allocation, and to not include independent adjusters, despite the latter being easily allocable to individual claims in most instances. The only current U.S. GAAP reference to ALAE ("expenses that are assignable or allocable to specific claims") is an AICPA audit guide which is non-authoritative. As different insurers have different systems and abilities to allocate such expenses, definitions of ALAE can vary by insurer. The NAIC triangles include loss plus Defense & Cost Containment (DCC) expenses (i.e., the NAIC triangles do not include Adjusting & Other (A&O) expenses). It should be noted that while the terms ALAE and DCC are often used synonymously, ALAE is not authoritatively defined for U.S. GAAP purposes while DCC and A&O are defined by the NAIC annual statement instructions.

[9] The requirement is "for the number of years for which claims incurred typically remain outstanding, but need not exceed 10 years including the most recent reporting period." Many U.S. companies have 10 years of information for domestic business readily available to fulfill current Schedule P reporting requirements.

- There is no required IBNR triangle (i.e., nothing similar to the NAIC's Schedule P, Part 4 triangle). Instead the ASU requires only the disclosure of the Bulk/IBNR component of the latest incurred valuation by accident year/line.
    - There is a requirement in the ASU to show disaggregated data such that *"useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics."* The extent of the disaggregation based on this principle is left to each individual company to determine. There is no requirement to show the total loss and ALAE for all lines combined and to include loss and ALAE data for every disaggregated segment or sub-segment in a development triangle. To the extent that some data is not included in any triangle, it is accounted for in a reconciliation of the outstanding liabilities shown in the triangles to total outstanding liabilities as of the balance sheet date (see Exhibits section).
- The triangles that are shown in the disclosures cannot combine information from different reporting segments.
- The latest diagonal (i.e., latest calendar year) of the triangle is to be audited. This may include the beginning outstanding, paid during the year, and ending outstanding information shown in the triangles. The earlier time periods in the triangle are considered "supplementary information" by the FASB and subject only to limited audit procedures.

Item	NAIC – Sched. P[10]	SEC – Guide 6	FASB – ASU 2015-09
Stated purpose of the disclosure	Part 2 (incurred losses) – overview to test the adequacy of reserves Part 3 (paid losses) – "cash flow projections, discounting calculations, and actuarial projections" (*2014 Ann. Statement Instructions*, p. 280).	Not stated in Guide 6 but generally understood intent is to understand the historical accuracy of management's estimates.	"allow users to understand the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities." (paragraph 944-40-55-9A)
Scope	By legal entity (for entities subject to NAIC), and combined for U.S. entities only.	Totals for all lines of business across all insurance entities for the reporting entity, including non-U.S. business.	Consolidated basis (including non-U.S. business), but disaggregated by line with no grand total requirement.
Disaggregation	22 defined lines of business and in total for all lines of business	N/A	Disaggregated, as determined by company. Not required for "insignificant categories." Categories not in triangles are a balancing item in the reconciliation
Ultimate incurred triangles	Yes	Yes	Yes
Paid triangles	Yes	Yes	Yes
IBNR triangles	Yes	No	No—Only the latest IBNR values at the "as of" date are required
Includes LAE?	Only DCC	Includes all LAE	Only ALAE
Discount	Undiscounted	Practice varies	Undiscounted
Number of valuation dates presented	10	11	10 (fewer if shorter tail)[11]
Accident years	10 accident years for long tailed and 2 years for short tailed and an "all prior" line	No accident year split—runoff of reserve as of the prior 10 calendar year-ends.	10 accident years, no "all prior" line ("all prior" reserves are a reconciling item)

[10] Unless otherwise stated, source is the NAIC Annual Statement Instructions for Schedule P.
[11] Section 944-40-50-4B requires disclosure "for the number of years for which claims incurred typically remain outstanding, but need not exceed 10 years."

Acquisitions/ Divestitures	Combined Statements for groups—Restate history to reflect current status (with regard to acquisitions/ divestitures), Legal entity—Restate history to reflect change in pooling).[12]	No explicit guidance in Guide 6, but based on SEC feedback the general practice is to runoff prior reserves based on original company structure at prior calendar year-ends.[13]	No guidance directly in the ASU as to how to reflect acquisitions/ divestitures.[14] The SEC has provided feedback, per the AICPA meeting notes, indicating a clear preference for "retrospective approaches." See discussion below.
Foreign Exchange (FX) effects	Treatment of FX effects can be disclosed in Schedule P interrogatory.	No specific guidance in Guide 6 for treatment of FX effects. Common practice is not to make any explicit adjustments such that cumulative amounts tie to current financial statements.	No guidance directly in the ASU as to how to reflect FX.[15] The SEC has provided feedback, per the AICPA meeting notes, indicating a preference for approaches that apply a consistent FX rate for all losses shown in the triangle.
Subject to audit	Latest calendar year information in total (i.e., Part 1 summary, excluding Bulk/IBNR, claim counts, and prior calendar year paids).	Not audited (MD&A)	Current period information (i.e., latest diagonal) subject to full procedures with remainder treated as supplemental information and subject to limited audit procedures.

[12] 2015 NAIC Annual Statement Instructions, page 281. Restatement is required when a pooling agreement change impacts prior accident years. Per the instructions, "[t]his should be done to present meaningful development patterns in Schedule P". The instructions appear to be ambiguous with regard to Schedule Ps for legal entities that have undergone a merger (whereby two entities were merged into one). SSAP No. 68 (Business Combinations and Goodwill), paragraph 12 requires restatement of the two years presented in the balance sheet and income statement, but no mention is made of Schedule P requirements. Current practice is for some (but not all) to restate Schedule P history in that case, with disclosure of that restatement in the Schedule P interrogatories. Those restating the history in the latter case may also restate the history for all other pool companies if a non-pool company is merged into a pool company, thereby causing prior accident year liabilities for the previous non-pool company to be newly subject to the pool. For combined statements, the 2015 Annual Statement Instructions (pages 615-616) require combining the Schedule Ps of the companies in the group, which would implicitly restate the group's combined statement history if new companies were added to the group or companies previously in the group are no longer in the group.

[13] For example, if Group A acquired Company B in 2016, the runoff history for the Dec. 31, 2015 reserves (and for prior year-end dates) would not include Company B's liabilities, but the runoff history for the Dec. 31, 2016 reserves (and for subsequent year-end dates) would include Company B's liabilities. This is not mentioned in the SEC Guide 6, but is general practice in the industry and attributed to SEC feedback to Form 10-K filers.

[14] As mentioned later in this white paper, the only mention of business combination and FX issues is in the FASB ASU's Basis for Conclusions. That mention does not provide specific rules for the handling of these situations, but instead provides general guidance in the form of the disclosure's objective.

[15] See footnote 13 above, which also applies to FX.

Significant implementation considerations

Significant implementation considerations associated with this required disclosure are:

- Level of disaggregation;
- Mergers, acquisitions, divestitures; and
- Foreign exchange (FX)

Level of disaggregation

The ASU provides a principle on how the loss triangles should be disaggregated (i.e., segregated in some manner, rather than single set of triangles for the grand total). In limited circumstances a company may conclude only one triangle is needed (e.g., a mono-line single-state writer). The ASU provides guidance in several areas for such disaggregation, including:

> 944-40-50-4H *"An insurance entity shall aggregate or disaggregate the [triangle disclosures] so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics. ...*
>
> *…… An insurance entity need not provide disclosures about claims development for insignificant categories; however, balances for insignificant categories shall be included in the reconciliation required."* [See discussion below about reconciliation exhibits]
>
> 944-40-55-9A *"…the extent to which an insurance entity's information is aggregated or disaggregated for the purposes of those disclosures depends on the facts and circumstances that pertain to the characteristics of the liability for unpaid claims and claim adjustment expenses"*

The ASU suggests basing the disaggregation on how loss reserves are presented for other purposes, such as earnings releases, annual reports, statutory filings, and investor presentations. It also suggests looking at how business is disaggregated internally by company senior management in evaluating performance.

Examples of possible disaggregation categories include:

- Type of coverage (e.g., major product lines)
- Geography
- "Reportable segment"[16] (may not be applicable to private entities).
- Market or type of customer
- Claim duration

[16] GAAP reporting rules (Section 280 of FASB's Codification) require that financial reports for public entities disclose more than just grand totals for the consolidated entity; the reporting rules also require a breakdown of key financials by major operating unit, or "reportable segment." How these segments are defined will vary by entity. They could vary by geography (such as North America, Europe, etc.), by market (e.g., commercial, personal, specialty), product line (e.g., auto, homeowners) or various combinations. The reporting segments for a particular entity should already exist. Some privately held entities also may use reporting segments, but they are not required to do so.

The ASU also includes a meaningful restriction on such disaggregations—"an insurance entity should not aggregate amounts from different reportable segments."

Discussion
For most public business entities, the existing segmentation for U.S. GAAP reporting may not match the Schedule P line of business splits. For example, a company with segments of personal and commercial lines may write property (Schedule P line I—Special Property) in both segments. As a result, the company may not be able to use the Schedule P line of business detail for its U.S. GAAP reporting. But it is possible that the portion of a Schedule P line written under one segment is not material to either the total for the segment or the total for the Schedule P line. According to the ASU, insignificant amounts are not required to be disclosed in the triangles and can be shown in the required reconciliation instead. This may result in that portion of the Schedule P line being labeled "insignificant" and not reported in any triangle, which could lead to inclusion of that business solely as a reconciliation adjustment. (See Reconciliation discussion below.)

One consideration is whether public entities want to use the major product line splits by reporting segment already included in their GAAP financials. An additional consideration in the level of disaggregation may be the level used in prior voluntary disclosures. For example, some international companies already issue global loss development triangles at a certain disaggregated level.

The decision on how to disaggregate and when to label a category as "insignificant" also may be influenced by the mergers/acquisitions/divestitures and the FX issues discussed below.

Mergers/acquisitions/divestitures
The ASU does not provide definitive guidance on how to handle these situations. The only mention of the topic is in the nonbinding Basis for Conclusions section, where it states:

> BC32. "[T]he Board decided that the [loss development triangles and other items] should be communicated in a manner that allows users to understand the amount, timing, and uncertainty of cash flows arising from its contracts in light of relevant circumstances (such as, but not limited to, business combinations and the effect of foreign currency exchange rate changes)."

Current NAIC Annual Statement instructions implicitly require that the Schedule P triangle history in combined statements be restated for merger/acquisition/divesture activity, such that the triangle history reflect the current members of an insurance group, not the past situation/membership.[17] In contrast, the current SEC table (required by Guide 6) requires the

[17] The instructions for reporting of an individual legal entity Schedule P's also require restatement of Schedule P history "when changes to pooling agreements impact prior accident years … This should be done to present meaningful development patterns in Schedule P." Some have interpreted this to include the situation in which a non-pool entity is merged into a pool entity, such that any remaining liabilities of the pre-existing non-pool entity are now ceded into the pool. This is consistent with how actuarial reserve analyses would adjust the historical data in performing a reserve analysis for the pool.

runoff of a consolidated entity's past reserves as the entity existed at the time the losses were incurred, even if the current runoff of that past reserve is commingled with acquired business such that separating the acquired from the pre-existing runoff is difficult.[18]

The AICPA meeting notes that discuss SEC feedback on this issue indicate a clear SEC preference for retrospective over prospective approaches. Retrospective approaches are those that would change the history reported for prior accident years from that reported previously by an insurer, either:

- Restating past history to adjust for the acquisition/divestiture activity (similar to the NAIC approach for combined statements), or;
- Isolating the acquisition/divestiture activity in a triangle (but including data prior to the acquisition/divestiture date).

Prospective approaches are those that only reflect the acquisition/divestiture for accident years/development periods after the acquisition/divestiture date.

Discussion
A major consideration in addressing mergers/acquisitions/divestitures in the triangle disclosures is data availability. The SEC has indicated a clear preference for retrospective approaches (i.e., those that show the development history based on the current structure of the insurer as if it always existed in its current state). Where this is not possible, an insurer may be required to use a prospective approach or to isolate the business affected by the merger/acquisition/divestiture activity to the best extent possible. For those companies subject to SEC oversight, per the AICPA meeting notes, "If a Registrant believes that a presentation other than the ones identified as acceptable by the SEC staff is consistent with the disclosure objectives of the ASU, the SEC staff would be open to discuss specific facts and circumstances with the Registrant."

The following tables discuss several possible approaches for acquisitions and divestitures, including both retrospective and prospective approaches, outlining advantages and disadvantages for each approach, starting first with approaches for acquired business.

Acquisitions	
Restate the entire history as if the acquired company had always been part of the group (i.e., the approach for NAIC combined statements.) This is a retrospective approach. *Note: This is only an issue in cases in which the disaggregated triangle would include both pre-existing and acquired business disaggregated segment.*	
Advantages	**Disadvantages**
• Relative to several alternatives, all accident years shown are on a consistent basis (i.e., they all show the combined business after the acquisition).	• The restated history in the triangle would not match disclosures from before the acquisition, potentially causing confusion to a reader comparing the current

[18] While the SEC loss table is a Guide 6 requirement, the treatment of acquired business is based on SEC feedback to individual filers, and the resulting common practice among SEC filers. With regard to the handling of divestitures of entities in the SEC triangle, current practice for some groups is to treat the liabilities that were transferred via the sale as being all paid and closed on the date of the sale (with the payment amount equal to their held values as of the date of the sale).

• Where the acquired operations were integrated or commingled into the existing operations (and not run as a separate operation), does not require splitting out the runoff into acquired and pre-existing pieces (which may be required under certain other approaches). • Retrospective approach (i.e., viewed as consistent with the objectives of the ASU by the SEC).	disclosures to prior ones, and data reliability concerns. • To the extent that the acquisition caused material changes in payment or reserving patterns, comingles data from before and after the change.

Include the data from the acquired operations only for accident years starting after the date of acquisition. This is a prospective approach.

Advantages	**Disadvantages**
• No need to restate any history shown in previous disclosures. • Only requires data for the acquired business going forward. To the extent that the acquisition caused material changes in payment and reserving patterns, only shows the patterns of the acquired business after the change.	• The accident years that started prior to the acquisition would not be directly comparable to those from after the acquisition, and may not be informative relative to the future "amount, timing, and uncertainty of cash flows arising from the liabilities" (i.e., the stated objective of the FASB triangles in the ASU).[19] • If the business is commingled, it may not be possible to reliably report the runoff of accident years prior to the acquisition.[20] • Complicates the required reconciliation exhibits, as they now would include runoff of accident years prior to the year of acquisition. This could cause confusion to the users of the information and lead to other disclosure issues if the reconciliation amounts are material to the overall totals. • A prospective approach, which has a potential to be viewed as inconsistent with the objectives of the ASU by the SEC (per the AICPA meeting notes).

Include the data from the acquired operations only for development periods after the date of acquisition. This is a prospective approach.

Advantages	**Disadvantages**
• No need to restate any history shown in previous disclosures.	• It may not be clear, for the development period in which the acquisition occurred,

[20] Reasons for this difficulty could be due to the lack of IBNR estimates established at the pre-existing legacy group level, the inability to split residual market or other pool participations into the prior legacy groupings, and a possible change in claim settlement practices given the current portfolio of exposures. (An example of the latter situation is where a carrier may have had only primary exposure on a disputed claim, but now also has umbrella and excess exposure due to the acquisition. This material change in the exposure may lead to a different settlement strategy.)

<table>
<tr><td>Only requires data for the acquired business going forward.
Not impacted by commingling of operations after the acquisition (in which case it may not be possible to reliably separate pre-existing from acquired business for future development periods).
To the extent that the acquisition caused material changes in payment and reserving patterns, only shows the patterns of the acquired business after the change.</td><td>how much of the sudden increase in cumulative payments and ultimate losses was due to the acquired business or for a change in the historical business.
May materially distort the calculation of payment patterns unless adjustments are made. As such, this could lead to confusion among users of the information without clear disclosure of the impact of the acquisition.
Reduces the amount of comparable development periods available in the analysis of payment and incurred development patterns.
Prospective approach, which has a potential to be viewed as inconsistent with the objectives of the ASU by the SEC (per the AICPA meeting notes).</td></tr>
<tr><td colspan="2">Maintain the acquired business in a separate triangle. This is a retrospective approach if the separate triangle includes history from before the acquisition.</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>No need to restate any history shown in previous disclosures.
May be able to isolate the effects from the unavailability of historical data.
Retrospective approach (i.e., an approach viewed as consistent with the objectives of the ASU by the SEC) if it includes history from before the acquisition. (It still may be acceptable to the SEC, however, if it doesn’t include history from before the acquisition.)</td><td>Not feasible for acquired business that is commingled with pre-existing business.
If a company makes many acquisitions, could result in a large number of triangles to be displayed and maintained.</td></tr>
<tr><td colspan="2">Determine the acquired business to be insignificant</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>No need to restate any history shown in previous disclosures.</td><td>Only possible for those acquired businesses that are “insignificant” relative to the total claim activity.
May not always be possible for a company that makes many acquisitions, as this approach would eventually lead to the sum of all “insignificant” items being significant.
Not feasible for acquired business that is commingled with pre-existing business.</td></tr>
</table>

<table>
<tr><th colspan="2">Divestitures
Note: The following discussion assumes that the divested business was not previously isolated in its own triangle(s).</th></tr>
<tr><td colspan="2">Restate the entire history as if the divested operations were never part of the group (i.e., the approach for NAIC combined annual statements) This is a retrospective approach.</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>• Makes old accident years consistent with newer accident years that began after the divestiture.
• Retrospective approach (i.e., an approach generally viewed as consistent with the objectives of the ASU by the SEC).</td><td>• Requires removing the divested operations from the history, which may not be possible (e.g., separate IBNR reserves may not have been maintained for the business that has now been divested).</td></tr>
<tr><td colspan="2">Record a paid loss equal to the reserve at the time of the divestiture for each accident year. This is a prospective approach.</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>• Historical incurred data does not change for the divested business.
• Simple and easy to accomplish from an actuarial perspective.
• This is what several insurance groups have done in the past for the SEC Guide 6 table.</td><td>• Creates a paid history that does not reflect actual paid amounts.
• May be viewed as counter to the objective of helping users understand the “amount, timing and uncertainty of cash flows arising from the liabilities”[21] (i.e., the stated objective of the triangles) if actual payments are not reflected in the triangles.
• Not a retrospective approach, so it may be viewed as inconsistent with the objectives of the ASU by the SEC (per the AICPA meeting notes), absent specific facts and circumstances that might otherwise justify its use (per the SEC).</td></tr>
<tr><td colspan="2">Include an additional column showing the cumulative impact on paid and incurred losses of the divested business. This is a prospective approach, likely combined and part of the previous approach.</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>• No need to restate any history shown in previous disclosures.
• Makes old accident years consistent with newer accident years for development periods that began after the divestiture.</td><td>• If the business is commingled, it may not be possible to reliably report the cumulative effect of the divesture.
• It may not be clear, for the development period in which the divestiture occurred, how much of the sudden decrease in cumulative payments and ultimate losses was due</td></tr>
</table>

[21] ASU 2015-09, paragraph 944-40-50-4H

	to the divested business or for a change in the remaining business. • May materially distort the calculation of payment patterns unless adjustments are made. As such, this could lead to confusion among users of the information without clear disclosure of the impact of the divestiture. • Reduces the amount of comparable development periods available in the analysis of payment and incurred development patterns. • Not a retrospective approach, so it may be viewed as inconsistent with the objectives of the ASU by the SEC (per the AICPA meeting notes), absent specific facts and circumstances that might otherwise justify its use (per the SEC).

Effect of Foreign Exchange (FX) rate changes[22]

The only mention in the ASU of how to deal with the effect of FX rate changes in preparing the disclosures is in the same paragraph quoted above under the Mergers/Acquisitions/Divestitures section.

The AICPA meeting notes that discuss SEC feedback on this issue indicate a clear SEC preference for approaches that apply a consistent FX rate for all losses in an accident year. Such approaches would prevent FX rate changes from impacting the observed loss development and payment trends for each accident year.

Discussion

As it relates to currencies, there are generally three types of companies—those that transact business in a single currency (in which case the effect of foreign exchange rates is a nonissue); those that transact business in dozens of currencies; and those that may do so in no more than a handful of currencies.

To the extent that liabilities for unpaid claims denominated in one currency are supported by assets in that same currency, the only exposure of the company's balance sheet to FX rates may be the net surplus or equity by currency (and not the total liabilities or assets by currency).

[22] Generally, where the financial statements are in U.S. dollars but some transactions are in other currencies, paid transactions are converted to U.S. dollars using the FX rate at the time of the transaction (or average transaction date for bulk totals), and balance sheet values are converted using the FX spot rate at the time of the balance sheet "as of" date.

The following table highlights several approaches that could be taken in dealing with FX rate changes in the new disclosures, outlining advantages and disadvantages for the approach in question. Furthermore, we have provided examples in Appendix 2 of each of the methods in the following table to demonstrate the effect of each proposal on loss development and the need for an additional reconciling item in certain scenarios. Insurers will likely assess their chosen approach in the context of how well it meets the objectives of the ASU.

<table>
<tr><th colspan="2">Foreign Exchange (FX) Effects</th></tr>
<tr><td colspan="2">Each year, convert the entire triangle of functional currency activity to reporting currency (typically U.S. dollars for U.S. GAAP financial statements) using the latest year-end exchange rates</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>• Where only a single currency is involved, the paid loss development is an accurate depiction of the underlying loss and ALAE development.
• Each accident year is consistent with the other accident years with regard to analysis of incurred and paid development trends (i.e., with no development or change in development due to FX movements).
• One of the approaches explicitly mentioned by the SEC (via the AICPA meeting notes) as being consistent with the objectives of the FASB ASU.</td><td>• All data for all accident years shown must be retained at the original currency level to allow for conversion using the latest FX rate.
• The history of the triangle will change each year, and the development factors will change as well when multiple currencies are involved.
• Requires adding reconciliation disclosures for calendar year paid loss items, as these payments generally would have been converted to the reporting currency at the weighted average rate based on the transaction date, while paid losses in the triangle would be converted to the reporting currency at year-end FX rates.
• Ignores the uncertainty in the liabilities from FX changes that the business had experienced in the past and may be relevant to the user of the financial statements.</td></tr>
<tr><td colspan="2">Separately report triangles in their original currency, not translated to the reporting currency; the translation to the reporting currency would be treated as a reconciliation item</td></tr>
<tr><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>• Simple to disclose these triangles if the data triangles are historically retained in their original currency.
• No restatement of history required.
• Would eliminate any development from FX changes in the paid development history. At the same time, would indicate where FX exposure exists.</td><td>• Requires maintaining the history in the original currency.
• May not be feasible if multiple currencies exist for the company, as there would be too many triangles.
• May cause some users to overstate the FX exposure by focusing on the FX exposure in the loss reserves, rather than the net FX</td></tr>
</table>

• One of the approaches explicitly mentioned by the SEC (via the AICPA meeting notes) as being consistent with the objectives of the FASB ASU.	exposure from the net of assets and liabilities. •

Report the same paid and outstanding values as reported in the income statement and balance sheet (paid values are converted to reporting currency based on the payment date FX rate; outstanding values are converted based on the balance sheet FX rate)	
Advantages	**Disadvantages**
• No additional reconciliation required. • No change to the historical data.	• Paid development in the triangle will include the impact of FX rate movements, rather than just underlying loss development patterns, commingling the volatility in historical cash flows from FX changes versus the natural variation in the outcomes due to the underlying insurance process. • Incurred development is distorted by the impact of FX rate movements. • FX impacts will vary by accident year, so the incurred development and the payment pattern for one accident year is not directly comparable to that for another accident year. • Viewed as inconsistent with the objectives of the ASU by the SEC (per the AICPA meeting notes), absent specific facts and circumstances that might otherwise justify its use (per the SEC).

In cases in which the operations in non-U.S. currencies are small enough, it might even be possible to place that activity into the "insignificant" category, avoiding FX issues entirely in the triangle disclosures.[23]

<u>Other Issues</u>

Other issues for this disclosure are the (a) reconciliation exhibits, (b) significance of Notes versus MD&A disclosures, (c) underwriting year, (d) change in definition of reporting segment and the impact on disaggregate disclosures, and (e) timing issues with the triangle requirements.

Reconciliation Exhibits

The ASU requires that the loss reserves in the triangles be reconciled to the recorded balance sheet reserves. This reconciliation reflects the fact that the all prior reserves for the latest as of

[23] See the end of paragraph 944-40-50-4H: "An insurance entity need not provide disclosures about claims development for insignificant categories; however, balances for insignificant categories shall be included in the reconciliation required by paragraph 944-40-50-4C."

date related to a given triangle are already reported with that triangle.[24] Reconciliation items could include:

- Insignificant lines
- Impact of discounting
- ULAE reserves
- Ceded reinsurance reserves
- FX adjustments
- Lines other than short duration (i.e., in which the insurer also has long-duration reserves or lines otherwise not included in the scope of the ASU)
- Other

Of the above items, only the ceded reinsurance reserves are required to be reported by disaggregated level, using the same segmentation as in the triangles. The total after these reconciliation items should be equal to the reported gross loss and loss expense reserves.

U.S. GAAP Notes (to the Financial Statements) versus SEC MD&A disclosures

Several of the written disclosures being required by the ASU are already required by the SEC in Guide 6 in some form (although perhaps not in the same form or with the same specificity as outlined in Guide 6). The SEC requirements, however, generally are reported in what is known as the MD&A section of a company's annual and quarterly reports. The MD&A section represents the thoughts and opinion of the company's management, also providing forward looking statements on future operations. The MD&A is not a part of the audited financial statements. Most of the ASU requirements will be part of the notes to the financial statement that are required to be audited. The ASU labeled the prior calendar year contributions to the development triangles as "required supplemental information," exempting them from the full audit requirement.

This requirement for most of these additional disclosures to be audited adds the involvement of an third party that has to audit these disclosures (i.e., the external auditor). The external auditor will likely require a certain amount of time to complete the audit work. Despite the additional time needed to prepare and audit, the due dates for SEC filings are not being extended because of this new requirement. As a result, the requirement to audit these disclosures may add time pressure to the GAAP reporting process for publicly traded insurers.

Underwriting year

The required disclosure is by accident year. There is no mention in the ASU of other groupings, such as underwriting year or policy year. Companies that only capture their data on these other bases will have to decide how to address the requirement for accident year data. Some companies may treat their smaller groupings without accident year detail as "insignificant"; others may do some approximate conversion of these other bases to accident year, capture accident year detail, or disaggregate the data with non-accident year history so as to prevent distortions from any conversion issues. How this issue is handled also may be impacted by timing issues that are discussed later, as some approaches may require more time/resources to accomplish than others.

[24] This is required by paragraph 944-40-50-4B at the end of that paragraph.

Assuming an insurer's losses are subject to the full 10-year history requirement, they are allowed to phase in the requirement by disclosing only five years the first year and adding another year each successive annual report (until the 10-year requirement is met) "if it is impracticable to obtain"[25] the full 10 years. This allowance may give some entities more time to meet the full requirement.

Changes in reporting segments and the impact on disaggregate disclosures

Any chosen disaggregation for these triangles needs to avoid combining data from different reporting segments, per the ASU.[26] Problems may arise when a company changes its reporting segments from those definitions used in the past.[27] The disaggregation chosen for past disclosures may result in combining data from different reporting segments under the newly defined reporting segments. As such, the change in reporting segments may require a revision of triangle histories to avoid combining data under different reporting segments, and could lead to a change in the lines/disaggregation chosen for disclosure.

Given the potential for having to revise triangle histories or change the level or lines to be disaggregated, one consideration is whether to maintain the triangle history at a more granular level than that used in the disaggregated ASU disclosure. With that approach, a change in reporting segments might only result in changing the remapping of the more granular lines to the more aggregated lines being disclosed. Alternatively, the change in reporting segment definition could necessitate reconstructing past historical triangles, if that past more granular data were even available.

Timing issues

Currently, the NAIC requires Schedule P data to be reported annually by March 1, but the audit report is not due until June 1. The same deadline exists for the largest SEC filers, with the smallest SEC filers given until the following month for the filing of their 10-K reports (that includes the SEC loss table), although 10-K reports are filed along with the auditors conclusions. Because of the need to disaggregate the data combined with the audit requirements of those new disclosures, the ASU will make these deadlines tighter.

Currently, the SEC loss table is not disaggregated, and not audited. If a company writes solely U.S. business that is already reported in Schedule P, there may be fewer timing challenges. Public companies, however, may have the added complication of disaggregating reporting segments. They may not have a process to produce these disclosures, at least not in the required timeframe.

The more significant issues relate to those companies with non-U.S. business (i.e., insurance business not included in any Schedule P report). The U.S. statutory reporting requirements are

[25] Paragraph 944-40-65-1e. The term "impracticable" is not defined here but in one FASB standard (ASU 250-10-45-9) it includes the concept that "after making every reasonable effort to do so, the entity is unable to apply the requirement".
[26] End of paragraph 944-40-55-9C.
[27] Changes in the definition of reporting segment can occur due to mergers/acquisitions/divestitures, changes in the senior management team, changes in business strategy, or other reasons.

currently viewed as world-leading.[28] Data from other countries may or may not be readily available and audited (or auditable) in the time permitted. One consideration is whether some of these issues may be addressed by including items in the "insignificant" category,[29] which may not be possible for the larger items.

Another consideration are situations in which, due to the need to close the books on a timely basis at year-end, estimates are recorded rather than actuals. For example, this may include recording an estimate of the paid losses between the data cut-off date and the financial reporting date. Given that estimates are rarely 100 percent accurate, decisions will need to be made as to how to handle the difference between these estimates and the actual values that are subsequently known. One approach might be to restate prior values to reflect the actuals in place of the originally reported estimates. Another approach might be to reflect any actual vs. estimate difference in later periods (when the actual values became known) if the difference is immaterial.

C. Claim Counts

The FASB's new guidance requires the reporting entity to disclose cumulative claim "frequency"[30] information in its disclosures for statements issued for annual periods. According to ASU 2015-09, such information would be provided in a tabular format for the same accident years and disaggregations as the claim development triangles, but would include only current information and not the entire triangle. There are several key discussion points around the requirement:

- The phrase "cumulative claim frequency information" was not explicitly defined by the FASB, and as such it gives preparers flexibility to consider the level of disclosure that provides the users of the financial statements the most useful information given the paid and incurred loss triangles disclosed. The FASB recognizes that companies have different approaches to defining claim frequency (e.g., per claim, per claimant, etc.). In practice, multiple definitions of "claim" may exist within the same company. The FASB requires the preparer to describe the methodology used to develop such cumulative claim frequency information.

- The cumulative claim frequency information is not required if it is impracticable for the user to provide such information, with "impracticable" in this case meaning that such information is unable to be provided after reasonable efforts.[31] This would be common in certain assumed reinsurance agreements for which such data may not be tracked or maintained. Accordingly, even if it is difficult to obtain or is not considered meaningful,

[28] The 2010 FSAP report included the statement "NAIC data collection and analysis capabilities are world-leading" (page 14 of the 2010 FSAP report on the U.S. relative to the IAIS Insurance Core Principles, issued May 2010, and available at https://www.treasury.gov/resource-center/international/standards-codes/Documents/FSAP_DAR_Insurance_Final_5%2011%2010.pdf).

[29] See the last sentence of 944-40-50-4H.

[30] The ASU uses the term "claim frequency," although its use in the ASU seems to be synonymous with the term "claim count." In actuarial literature, the term "claim frequency" typically refers to claim counts relative to some measure of exposure, but the ASU makes no mention of an exposure basis in the mention of "claim frequency."

[31] Further guidance in evaluating impracticability can be found in ASC 250 – Accounting Changes and Error Corrections.

the guidance does require that such frequency information be disclosed. If it is impracticable to provide such information, ASU 2015-09 requires the reason to be explained in the disclosures.

- This information is meant to include actual reported claim frequency and not include unreported claims. As mentioned in the Basis for Conclusions section of the ASU,[32] the reported claim frequency, along with the incurred loss amounts and the related disclosure of IBNR, also would allow the reader to impute average severity of reported claims.

It is reasonable to expect that users of the financial statements will consider the claim frequency as a measure of exposure. In addition, users may compare such information among insurance sector participants who are writing similar business. In many circumstances, there will be characteristics of the losses and reported claim frequency information that impact the evaluation of this information presented and such comparisons to sector participants. Some of these more common circumstances that would likely arise are described below:

- *Partially available information.* In certain cases, it may be common for an insurance company to have mostly direct business, with some assumed reinsurance business (e.g., personal auto or workers' compensation assumed business from residual market pools[33]). In such cases, the claim frequency information may not be available for the assumed portion, but the assumed paid and incurred loss amounts may have been included in the loss development table (based on the selected disaggregation approach). As a result, the preparer may disclose that the claim counts do not include counts from this assumed business. Alternatively, the preparer may choose to exclude the assumed business from the paid and incurred triangles, treating them as insignificant, or produce a separate triangle for this assumed business.

- *Claims below attachment points.* Companies that provide insurance above per claim or aggregate deductibles typically would have records of claims that have not reached the deductible, but may in the future once these develop or aggregate with other claims into the company's layer of coverage. Companies often have different definitions of claim counts with regard to uninsured layers of coverage, and may disclose such information because it could provide helpful information to the user.

- *Direct claim counts on 100 percent ceded business.* Counts for this business may be included in the company's claim count data (such as from some residual market servicing carriers or fronted business), but there would be zero dollars from this business in the reported triangles as these are presented on a net of ceded reinsurance basis.

- *Changes in ceded reinsurance terms over time*. Given that incurred and paid losses are presented on a net of ceded reinsurance basis, there exists a potential mismatch between the presentation of losses and claim frequency because there is no common approach for stating claim counts net of ceded reinsurance. One consideration is whether, to the extent

[32] ASU 2015-09, paragraph BC24

[33] This is just one example of assumed business that may exist. Other examples include participation in voluntary pools, reinsuring from non-affiliate captive insurance companies, et al.

there have been changes in ceded reinsurance terms (e.g., attachment points, quota share percentages, etc.), the user of the statements may benefit from having information regarding changing ceded reinsurance terms disclosed.

- *The existence of multiple lines, coverages, and covered perils underlying the triangle of dollar amounts*. Each line/coverage/peril may have its own implicit severity distribution or characteristics. Even if the exposures among the various lines/coverages/perils are consistent over time, random variation will result in the mix of claim counts by line/coverage/peril varying from one period to the next.

- *Changes in mix of business, policy terms, and similar changes to the portfolio over time*. Similar to the ceded reinsurance example above, companies often have changes to their portfolio of business that affect the comparison of losses to cumulative claim frequency. Again, a consideration is whether, to the extent such changes impact the comparison of losses to claim frequency, it may be helpful for the preparer to disclose such changes.

With regard to each of the above, users may benefit from additional disclosures to improve their understanding of the limitations of the information presented. Additional disclosures become increasingly important as the number of coverages included in the disaggregation increases, the more changes there have been over time in the underlying business and/or ceded reinsurance terms, and to the extent there are varying definitions of a claim count for a company's various operations. Nevertheless, many companies may find that, even after supplemental disclosure, the frequency information at the required level of disaggregation has limited decision usefulness. In such cases, the preparer may consider disclosing the limitations of this information.

D. IBNR and IBNR Methodology

Currently, there is no explicit requirement for the separate reporting of Bulk[34]/IBNR under U.S. GAAP.

The absence of U.S. GAAP guidance regarding IBNR disclosure will change when this new ASU becomes effective. The new guidance requires that for annual reporting, "the total of incurred but not reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses" be reported for each accident year. Such information would be provided in a tabular format for the same accident years and disaggregations as the claim development triangles. Only the value as of the latest year-end would be reported, however, and not the entire triangle of Bulk/IBNR values as is required for paid and ultimate incurred losses. (Bulk/IBNR disclosure also would not be required for lines/categories deemed "insignificant.") Essentially, this is pure IBNR plus IBNER (incurred

[34] Bulk generally refers to additional amounts beyond case reserves for reported claims, and is sometimes referred to as IBNER (Incurred But Not Enough Reported). The Bulk reserve can be negative, implying that the case reserves are redundant in the aggregate. Reinsurers sometimes supplement case reserves reported to them by cedents. These amounts, called additional case reserves (ACRs), could be viewed as case reserves if set on a claim by claim basis, or bulk reserves if set based on an aggregated view of multiple claims.

but not enough reported, or Bulk) for each accident year for losses plus ALAE combined. Neither the separate presentation of IBNR, IBNER, ALAE, nor loss is explicitly required.

An accompanying description of the (reserving) methodologies employed to derive the Bulk/IBNR estimates is required by the ASU. For P&C business, it is common actuarial practice to estimate an ultimate incurred loss and LAE, then subtract case basis incurred to obtain Bulk/IBNR reserves. It is unclear whether describing this actuarial practice will be sufficient to address the new FASB requirement, or whether additional disclosure would be needed of how the ultimate incurred was estimated.[35] The new guidance requires changes in the methodologies employed to be noted.[36] No specific guidance or requirement is offered regarding the level of detail contemplated.

E. Payment Patterns

The ASU 2015-09 requires that a company disclose, as supplementary information, "the historical average annual percentage payout of incurred claims by age, net of reinsurance." The requirement is for all the development periods shown in the loss development triangles.

The examples in ASU 2015-09 use a simple all-year average percent payout being calculated for each development period. The ASU requirement is historical only and no forward-looking assumptions would be appropriate in calculating the payout pattern. Excluding certain years entirely from the calculation, could create a non-GAAP measure.[37] Another consideration is whether it might be useful to give additional weight to recent accident years at each development period rather than older accident years through some weighting mechanism, while still including all years. Such an approach may better reflect future expected experience, but the disclosure itself is for the "historical" percentages. One consideration for the preparer when electing his or her approach is whether the objective is being met with a weighted mechanism.

The FASB indicated in BC25 that if a company believes this information to be "confusing or misleading to financial statement users," the company is not precluded from providing additional information to allow the user to interpret the information. As such, it is possible that additional qualitative and quantitative disclosures could be used to explain large catastrophes in certain years or changes in claim settlement practices that have sped up or slowed down claims payments. Another example of this could be when acquisitions are presented on a prospective basis, which could distort the percentages of the current ultimate incurred loss estimates paid in accident years and development periods prior to the acquisition.

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[35] Note that the SEC already requires P&C insurers to provide such disclosures (i.e., as to how ultimate estimates are provided), although this requirement has come in the form of feedback to individual filers rather than via Guide 6.
[36] Per paragraph 944-40-55-4F.b.
[37] It may be possible to show the historical average for all years excluding those considered anomalous, accompanied with disclosure of the historical average for those considered anomalous (e.g., due to a weather-related catastrophe occurring in those years) as long as all accident years shown in the triangles are included somewhere. Note that the ASU stated objective for this disclosure is "information … that allows users to understand the amount, timing and uncertainty of cash flows arising from the liabilities" aggregating or disaggregating "so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics," such as high-cat years being aggregated with low-cat years.

Regardless, the ASU included an example of how the requirement might be met. Note that payment patterns following this example could result in percentages that add up to less than 100 percent (due to tails beyond 10 years or data anomalies), or payment patterns that add up to more than 100 percent (due to data anomalies).

F. Discounting Tables

If an insurance entity presents its liabilities for unpaid claims and claim adjustment expenses at present value in its financial statements, the following information is required to be disclosed on an annual basis.[38]

a) For each period presented in the statement of financial position, the carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to the short-duration contracts that are presented at present value.
b) The range of interest rates used to discount the liabilities disclosed in (a).
c) The aggregate amount of discount related to the time value of money deducted to derive the liabilities disclosed in (a).
d) For each period presented in the statement of income, the amount of interest accretion recognized.
e) The line items(s) in the statement of income in which the interest accretion is classified.

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This disclosure is required by the ASU to be the disaggregated level previously discussed.

Amount of Discount

The ASU requires the company to disclose the amount of discount, as well as the amount of unpaid claims and claims adjustment expense for the contracts that are discounted. There are no examples provided in the ASU on how this information should be presented. One consideration is whether a company could present this information in table or narrative form, as well as what segmentation, if any, should be provided.

Accretion

The following are six potential sources of changes in discount for prior accident years that would affect interest accretion.

- Change in the amount of undiscounted reserve due to paid losses
- Change from prior year development
- Change in the payout pattern used in the discount calculation
- Change in the interest rate or rates used in the calculation
- Acquisitions or dispositions of discounted business
- Changes in foreign exchange rates

All six items may be included in the accretion disclosure, although there is no requirement that they be shown separately.

Interest Rates

[38] Paragraph 944-40-50-5.

There are various possible ways to disclose the interest rate (item (b) above) in discounting. One consideration is how many rates are used. If only one rate is used, a simple paragraph may be sufficient, while a table may be needed if a range of rates from a yield curve is used, or if different rates are used for different disaggregated segments.

Another consideration is whether an explanation as to why the specified interest rate or rates were used be included to provide the user of the financial statements with an understanding of the reason for selecting these particular rates.

G. Changes in Methods and Assumptions

The ASU includes the following:

> *"944-40-50-4I For annual reporting periods, an insurance entity shall disclose information about significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements for the most recent reporting period presented."*

The current SEC Guide 6 requires that the following items be discussed for public P&C filers:

> *"(3) Significant reserving assumptions and recent changes therein"*

The following is from the NAIC instructions for P&C loss reserve opinions. (Note that it relates to changes with regard to reviewing reserves, not setting reserves):

> "If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a RELEVANT COMMENT paragraph. If the actuary is unable to review the work of a prior Appointed Actuary, then the actuary should disclose this."

Discussion

In general, current U.S. statutory accounting does not address changes in methods for calculating reserves. Instead, statutory accounting standards address calculating a reasonable reserve, concerned only with changes in previously booked estimates and changes in actuarial methodologies used by the opining actuary in reviewing the liabilities and issuing the actuary's Statement of Actuarial Opinion. If the method changed but the net result is no change in the indicated ultimate loss amounts, then no statutory disclosures are triggered.

The ASU requirement is similar to, but an expansion of, the current SEC requirement to discuss *"significant reserving assumptions and recent changes therein."* The expansion is the explicit requirement to disclose the reasons for the change and the effects on the income statement.

In practice, it may be challenging to be definitive in the wording that meets this new FASB disclosure, despite the proposed expansion of the SEC disclosure. This is due to the loss reserve setting process for many P&C lines used by insurers. One approach insurers might use to set the initial reserve for a P&C line is a loss ratio approach. Under that approach, company management selects a projected future business loss ratio based on past loss experience for recent accident years, developed to ultimate, trended, and divided by on-level earned premium (with possible adjustment for anticipated future underwriting, premium, and similar changes). The resulting selected loss ratio times current period earned premium equals current period incurred losses. Incurred losses plus the beginning reserves less current period paid losses equal ending reserves. A possible description (consistent with the above) is that the company used multiple methods and scenarios to determine the possible loss ratio, then selected the resulting loss ratio indication that seemed most consistent with the particular facts and circumstances. Described in these generic terms, significant changes to the method described might turn out to be rare.

A similar situation also may exist even in cases in which a loss ratio reserving approach is not used. For example, if a company describes its reserve-setting process as the use of multiple methods and scenarios to determine various estimates of ultimate losses, it may then select a single point estimate that is believed to be most consistent with the particular facts and circumstances. This is also a generic description, such that significant changes to this method might be rare.

Another situation may involve a more mechanical approach to reserve setting. For such situations, one consideration may be the degree of granularity of the disclosure, at least for those insurers with many reserving lines. This is at least partially due to the fact that this requirement in the ASU is not included in the sections that require disaggregation. As such, materiality evaluations for this disclosure may be on total reserves, not disaggregated reserves. However, we note that 944-40-50-4F of the ASU indicates significant changes in methodologies, but not assumptions, used to develop IBNR estimates should be described by the insurance entity and this paragraph is required at the disaggregated level.

The discussion above does not address changes in methodology or assumptions that led to changes in prior period estimates of incurred amounts. That is addressed elsewhere in the ASU, the SEC Guide 6, and the Statutory Annual Statement Note 25 (as of year-end 2014). In particular, previous FASB guidance already required disclosure of the reasons for a change in prior estimates (in paragraph 944-40-50-3d), with the new ASU retaining the prior wording.

H. Special Considerations for Health

As noted earlier, the new ASU applies to all short-duration insurance contracts, including many accident & health insurance contracts and even some life insurance contracts (e.g., group term life). Readers whose primary interest lies in health (or life) contracts are encouraged to read this white paper in its entirety; however, we also wanted to provide a separate section that includes material aimed specifically at a health/life audience rather than a P&C audience.

Applicability

The new disclosure requirements, except the reserve roll-forward, apply only to contracts that are classified under GAAP as short-duration rather than long-duration. However, in some circumstances there are similar products falling into either classification. Representative examples include the following:

- With coverages like group long-term disability and group life, some issuers have classified the contract as long-duration while others have classified it as short-duration . Issuers that amortize deferred acquisition costs (DAC) from these contracts over an extended period of time have in effect classified the contract as long-duration. However, the valuation methodologies for actuarial liabilities under existing GAAP for these coverages are likely the same regardless of whether the contract has been classified as long- or short-duration.
- Some issuers have blocks of Medicare Supplement policies in which some policy forms are issue-age-rated and carry reserves for future policy benefits, while other policy forms are attained-age-rated and do not carry such reserves. In these situations, the issue-age-rated contracts have been classified as long-duration, while the attained-age-rated contracts likely have been classified as short-duration. Note that even the attained-age rated contracts are subject to a multi-year refund calculation so that “reserve-like” liabilities may arise. However, looking only at claim reserving, the same methodologies and assumptions may be applied to both sets of contracts.

What these examples highlight is that, for many health issuers, the existing reserves may amalgamate balances from short-duration and long-duration contracts. For example, an issuer who has both attained-age-rated and issue-age-rated Medicare Supplement policies may record the claim reserves for both sets of contracts together.

In that context, the fact that the new expanded disclosures apply just to short-duration contracts may raise concerns about which contracts to scope into those disclosures. One consideration is whether, based on issuers’ reserving practices, the inclusion of certain long-duration contracts within the scope of the expanded disclosures would provide greater value to users of their financial statements than if those contracts were scoped out of the disclosures. Assuming the users are looking at the reasonableness of reserve development and not looking to compare the incurred claims with earned premiums, the combination of short-duration contracts with similar claims from long-duration contracts would be reasonable. The issuer may always disclose more than the requirement.

Aggregation

ASC 944-40-50-4A creates a new requirement, specific to health insurance claims, that the quarterly reserve roll-forward discussed in Section III.A be aggregated or disaggregated in such a manner “so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics.”

ASC 944-40-55-9C implies that, at a minimum, a reporting entity that applies segment reporting needs to disaggregate the reserve roll-forward at the reportable segment level. So, for example, if a health insurance reporting entity had a commercial segment that included its individual and group medical business and a government segment that included its Medicare and Medicaid business, then at a minimum under the ASU the reporting entity would need to have a commercial roll-forward and a government roll-forward. Disaggregation by reportable segment is a minimum requirement for companies with reportable segments, though, and not necessarily a safe harbor. So, continuing the example, if the commercial segment also included group long-term disability business that was classified as short-duration, one consideration for the reporting entity would be whether the disability business ought to be presented in a separate roll-forward, to the extent that long-term disability (LTD) claim reserves have "significantly different characteristics" than medical claim reserves and both are of material size.

ASC 944-40-55-9B provides further criteria that the reporting entity ought to consider in selecting the level of aggregation for the reserve roll-forward, including but not limited to the types of disclosures already being made within statutory filings. For health insurers, the reference to statutory filings has two types of implications. First, the business included within a particular reportable segment for any given health insurance reporting entity may be spread among many different statutory entities. Second, for entities filing the NAIC Health Blank, the Underwriting and Investment Exhibit Part 2C provides reserve development information for several different defined lines of business: hospital & medical, Medicare Supplement, dental only, vision only, Federal Employees Health Benefits Program, Medicare, Medicaid, and other health (including LTD, long-term care, and stop loss). In setting the aggregation level for the reserve roll-forward and related disclosures, a consideration for the reporting entity may be the existence of these various statutory disclosures, together with materiality considerations for the consolidated entity.

(See also the discussion below under "Claim Frequency.")

Accident Year Versus Policy Year

As discussed in Section III.B (*Underwriting Year)*, the claims development table is required to be shown on an accident-year basis. For most health coverages, an accident-year basis is the most natural manner in which to present data of this type. However, for stop loss coverage, a policy-year presentation is usually the norm, given how the insurer calculates the reserves. Refer to the discussion in Section III.B about possible considerations a company may make in a situation where accident-year claims development is not currently being monitored.

Claim Frequency

ASC 944-40-50-9D creates a new requirement for reporting entities to disclose "cumulative claim frequency information," as discussed above in Section III.C (*Claim Counts*), as part of the annual reserve development disclosure. For certain contracts, such as group disability or group term life waiver of premium claims, this information may be meaningful and relatively straightforward to calculate. For other health contracts such as medical insurance, for which claim reserves typically are set not on a seriatim basis but by considering homogenous cells of business, this information may be both less meaningful (to the extent that claim counts are not actually used as an input to the valuation process and can be overstated when the care for the same insured is be handled by several different providers and processed through different claims systems) and less straightforward to assemble.

Note that the aggregation criteria discussed above apply not only to the reserve roll-forwards, but also to the reserve development tables, including the presentation of claims frequency information. As such, the "significantly different characteristics" principle behind disaggregation might suggest that differences between types of contracts in claims frequency characteristics may need to be taken into account in determining the appropriate aggregation level.

IBNR Disclosure

The ASU creates a new disclosure regarding the "the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses," which was discussed from a P&C perspective in Section III.D (*IBNR and IBNR Methodology*). Note that for health insurance claims, ASC 944-40-50-9E requires this disclosure on a quarterly rather than just annual basis. From a health perspective, the issues involved are different from medical-type coverages versus other coverages, so we discuss each category separately below.

Medical-Type Coverages

Typical claim reserving methodologies for medical insurance and similar coverages (e.g., dental, vision) are oriented around determining the IBNP (incurred-but-not-paid) liability in total. The IBNP liability is often referred to as the IBNR; however, health actuaries may consider the IBNP to have the following three components:[39]

- the IBNR, for claims not yet reported;
- the in-course-of-settlement (ICOS) for claims reported to the insurer but not yet adjudicated;
- the Due & Unpaid (D&U), for claims reported and adjudicated but where payment has not yet been made.

The term IBNER is not commonly used among health actuaries.

Similarly, the concept articulated in the ASU as "expected development on reported claims" is not a familiar one among health actuaries. In practice, health actuaries might include that amount in the IBNR, because it's neither part of the ICOS nor the D&U.

Therefore, it appears that for medical claims and similar coverages, this new disclosure might have the reporting entity disclose the portion of the overall IBNP reserves that is neither ICOS nor D&U. This disclosure requirement may create some challenges to the extent that the reporting entity may not today be explicitly calculating the ICOS or D&U as part of its process for estimating the overall IBNP. There are limited circumstances today (e.g., Exhibit 8 of the NAIC Life/A&H Blank) in which an insurer may need to decompose its total IBNP into D&U vs. ICOS vs. IBNR, but that decomposition is often done using approximations and historical studies rather than precise data.

Other Health/Life Coverages

For other types of health and life insurance subject to this disclosure, claim reserves are more frequently calculated on a true seriatim basis, with explicit calculation of a true IBNR component.[40] The concept of "expected development on reported claims" remains unfamiliar in

[39] For instance, see page 8 of the report "Comparison of Incurred But Not Reported (IBNR) Methods" published in 2009 by the Society of Actuaries, at http://www.soa.org/files/research/projects/research-ibnr-report-2009.pdf.
[40] For instance, see the discussion of the "Tabular Method" in Section 3.5.2 of Actuarial Standard of Practice No. 5, "Incurred Health and Disability Claims."

this context. (For instance, with death claims under group term life, the magnitude of the ultimate claim payment is not subject to change based on new information.) As such, for these coverages, one consideration is whether this disclosure would incorporate just the explicitly calculated IBNR component of the total claim reserves.

The concept of "expected claim development on reported claims" for many disability income claims would seem to fit within existing practices that deal with information on diagnosis and location to assess, even prior to the end of the elimination period, the potential pattern of claim payments net of offsets, COI provisions and diagnosis-based limitations.

Payment Patterns

The new disclosure (in ASC 944-40-50-9G) regarding the history of claims duration by age, as discussed in Section III.E (*Payment Patterns)*, specifically excludes "health insurance claims" from its scope. The definition of "health insurance claims" includes the phrase "claims related to the cost of medical treatments." One consideration for preparers is whether the scope of this exclusion can be construed to extend to death claims and/or waiver of premium claims under short-duration group term life policies, or claims under short-duration group disability policies.

Discounting

The ASU expands on the existing disclosure requirement in ASC 944-40-50-5 regarding claim liabilities for which discounting is applied, such as long-term disability claim reserves or group term life waiver of premium reserves (to the extent these coverages are considered to be short-duration). Please see the discussion in Section III.F (*Discounting Tables*).

Changes in Methods and Assumptions

As discussed in Section III.G (*Changes in Methods and Assumptions)*, the ASU creates a new disclosure regarding the reasons for and effect of "significant changes in methodologies and assumptions used in calculating the liability for unpaid claims." Many of the considerations discussed in that section for P&C practice are similar to health practice, at least as it pertains to shorter-tailed lines (e.g., medical insurance).

This new disclosure is more significant in practice on the health/life side with respect to coverages for which tabular reserves are held (e.g., group term life waiver of premium to the extent these coverages are considered short-duration). Reserves frequently represent a combination of tabular reserves from an industry-experience table with the credible portion of the company's own experience. Thus for these coverages, a reporting entity may on occasion perform a study to update assumptions for recovery rates, mortality rates, interest rates, and other major variables impacting the reserves, and then apply the updated assumptions across its entire portfolio of reserves. Under the ASU, the reporting entity would need to consider if this type of adjustment to reserve factors would be a significant change in methods or assumptions and have to be disclosed.

IV. Conclusion

This white paper has outlined the key requirements of ASU 2015-09. It also has demonstrated several areas in which the updated accounting standards require clarity or result in the need for decisions to be made by preparers on implementation.

The work group that wrote this white paper will monitor emerging practice and continue to have conversations with other bodies with a vested interest in the implementation of these additional disclosures. This document is not intended to be a practice note; however, the work group hopes that feedback received on and uncertainty addressed by this white paper might eventually result in a formal practice note.

Glossary

Accretion—The growth in a discounted reserve as the discount unwinds over time.

Bulk and IBNR reserve—A term used for incurred but not reported reserves to incorporate all aspects of IBNR, including: 1) reserves for unreported claims, 2) development on reported claims, 3) reported claims that have not yet been fully entered into the claims system and a case reserve set, and 4) reserves for the reopening of closed claims.

Loss Adjustment Expenses (LAEs) – Costs that will be required to settle claims that have been incurred as of the financial statement date. LAEs are estimated and typically presented in two forms:

1. **Allocated Loss Adjustment Expense (ALAE)**
2. **Unallocated Loss Adjustment Expense (ULAE)**.

Management Discussion & Analysis (MD&A)—A disclosure section of a company's annual report in which management discusses the financial condition and results of operations of the company.

Public Business Entities – Entities as defined by Accounting Standards Update 2013-12 which updated the Master Glossary of US GAAP. Prior to this update the term used was "public entities". http://www.fasb.org/jsp/FASB/Document_C/DocumentPage&cid=1176163702930

Schedule P—A schedule required to be filed by U.S.-domiciled statutory insurance entities that includes various schedules with loss, ALAE, ULAE, and claim count information in the aggregate and by line of business.

V. Appendices

Appendix 1:

The following Exhibits have been reproduced from the Accounting Standards Update 2015-09: *Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts* with the permission of the Financial Accounting Standards Board (FASB).

Homeowners' Insurance
in thousands

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 20Y6	
	For the Years Ended December 31,											
Accident Year	20X7	20X8	20X9	20Y0	20Y1	20Y2	20Y3	20Y4	20Y5	20Y6	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
20X7	$10,000	$ 9,900	$ 9,700	$ 9,800	$ 9,750	$ 9,750	$ 9,600	$ 9,650	$ 9,575	$ 9,550	$ 5	39
20X8		10,950	11,000	10,500	10,750	10,850	10,600	10,250	10,150	10,250	30	37
20X9			12,000	11,750	11,500	10,900	10,900	10,850	10,750	10,500	90	38
20Y0				12,250	12,500	12,550	12,400	12,200	12,150	12,000	300	36
20Y1					12,300	12,500	12,650	12,750	12,800	12,850	900	35
20Y2						12,800	12,900	12,750	12,700	12,700	1,100	34
20Y3							13,000	13,250	13,100	13,150	1,500	31
20Y4								13,150	13,250	13,300	2,100	29
20Y5									13,500	13,250	3,100	26
20Y6										13,750	5,000	22
									Total	$ 121,300		

Homeowners' Insurance
in thousands

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
Accident Year	20X7	20X8	20X9	20Y0	20Y1	20Y2	20Y3	20Y4	20Y5	20Y6
20X7	$ 3,000	$ 5,000	$ 5,500	$ 6,000	$ 6,800	$ 7,500	$ 8,500	$ 9,000	$ 9,050	$ 9,075
20X8		3,500	5,750	6,500	7,500	7,750	8,250	8,500	9,000	9,500
20X9			3,750	6,000	6,500	7,500	7,900	8,250	8,950	9,700
20Y0				3,750	6,250	7,250	7,750	8,900	9,700	9,950
20Y1					4,250	5,500	6,750	8,000	8,950	9,250
20Y2						4,125	5,250	7,000	8,000	9,000
20Y3							4,500	5,750	7,250	7,750
20Y4								4,600	6,000	6,950
20Y5									4,750	6,125
20Y6										4,850
									Total	$ 82,150
	All outstanding liabilities before 20X7, net of reinsurance									1,400
	Liabilities for claims and claim adjustment expenses, net of reinsurance									$ 40,550

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated statement of financial position is as follows.

[For ease of readability, the calculation is not underlined as new text.]

		December 31, 20Y6
Net outstanding liabilities		
Homeowners' insurance	$	40,550
Other short-duration insurance lines		1,976
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance		42,526
Reinsurance recoverable on unpaid claims		
Homeowners' insurance		13,880
Other insurance lines		283
Total reinsurance recoverable on unpaid claims		14,163
Insurance lines other than short-duration		3,315
Unallocated claims adjustment expenses		2,420
Other		10
		5,745
Total gross liability for unpaid claims and claim adjustment expense	$	62,434

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> > Example 2: Information about Historical Claims Duration

944-40-55-9F An illustrative Example of the supplementary information that an insurance entity would disclose to meet the requirements in paragraph 944-40-50- 4G is as follows.

Note X: Liability for Unpaid Claims and Claim Adjustment Expenses

The following is supplementary information about average historical claims duration as of December 31, 20Y6.

[For ease of readability, the illustration is not underlined as new text.]

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Homeowners' insurance	33.8%	14.9%	8.5%	7.2%	6.6%	4.9%	5.4%	5.7%	2.7%	0.3%

944-40-55-9G For this illustrative Example, the approach selected by the insurance entity to compute historical claims duration using the information about claims development included in paragraph 944-40-55-9F is as follows. These calculations are for illustrative purposes only and would not be included in the disclosure.

[For ease of readability, the illustration is not underlined as new text.]

Percentage of Claims Paid in Year 1				Percentage of Claims Paid in Year 2			
Accident Year	Claims Paid in Year 1 (A)	Most Recently Re-estimated Incurred Claims (B)	Percentage of Claims Paid in Year 1 (A) / (B) = (C)	Accident Year	Total Claims Paid End of Year 2 (D)	Claims Paid in Year 2 (D) – (A) = (E)	Percentage of Claims Paid in Year 2 (E) / (B)
20X7	$ 3,000	$ 9,550	31.4%	20X7	$ 5,000	$ 2,000	20.9%
20X8	3,500	10,250	34.1%	20X8	5,750	2,250	22.0%
20X9	3,750	10,500	35.7%	20X9	6,000	2,250	21.4%
20Y0	3,750	12,000	31.3%	20Y0	6,250	2,500	20.8%
20Y1	4,250	12,850	33.1%	20Y1	5,500	1,250	9.7%
20Y2	4,125	12,700	32.5%	20Y2	5,250	1,125	8.9%
20Y3	4,500	13,150	34.2%	20Y3	5,750	1,250	9.5%
20Y4	4,600	13,300	34.6%	20Y4	6,000	1,400	10.5%
20Y5	4,750	13,250	35.8%	20Y5	6,125	1,375	10.4%
20Y6	4,850	13,750	35.3%				
		Average	33.8%			Average	14.9%

Percentage of Claims Paid in Year 3				Percentage of Claims Paid in Year 4			
Accident Year	Total Claims Paid End of Year 3 (F)	Claims Paid in Year 3 (F) – (D) = (G)	Percentage of Claims Paid in Year 3 (G) / (B)	Accident Year	Total Claims Paid End of Year 4 (H)	Claims Paid in Year 4 (H) – (F) = (I)	Percentage of Claims Paid in Year 4 (I) / (B)
20X7	$ 5,500	$ 500	5.2%	20X7	$ 6,000	$ 500	5.2%
20X8	6,500	750	7.3%	20X8	7,500	1,000	9.8%
20X9	6,500	500	4.8%	20X9	7,500	1,000	9.5%
20Y0	7,250	1,000	8.3%	20Y0	7,750	500	4.2%
20Y1	6,750	1,250	9.7%	20Y1	8,000	1,250	9.7%
20Y2	7,000	1,750	13.8%	20Y2	8,000	1,000	7.9%
20Y3	7,250	1,500	11.4%	20Y3	7,750	500	3.8%
20Y4	6,950	950	7.1%				
		Average	8.5%			Average	7.2%

Percentage of Claims Paid in Year 5				Percentage of Claims Paid in Year 6			
Accident Year	Total Claims Paid End of Year 5 (J)	Claims Paid in Year 5 (J) – (H) = (K)	Percentage of Claims Paid in Year 5 (K) / (B)	Accident Year	Total Claims Paid End of Year 6 (L)	Claims Paid in Year 6 (L) – (J) = (M)	Percentage of Claims Paid in Year 6 (M) / (B)
20X7	$ 6,800	$ 800	8.4%	20X7	$ 7,500	$ 700	7.3%
20X8	7,750	250	2.4%	20X8	8,250	500	4.9%
20X9	7,900	400	3.8%	20X9	8,250	350	3.3%
20Y0	8,900	1,150	9.6%	20Y0	9,700	800	6.7%
20Y1	8,950	950	7.4%	20Y1	9,250	300	2.3%
20Y2	9,000	1,000	7.9%				
		Average	6.6%			Average	4.9%

Percentage of Claims Paid in Year 7				Percentage of Claims Paid in Year 8			
Accident Year	Total Claims Paid End of Year 7 (N)	Claims Paid in Year 7 (N) – (L) = (O)	Percentage of Claims Paid in Year 7 (O) / (B)	Accident Year	Total Claims Paid End of Year 8 (P)	Claims Paid in Year 8 (P) – (N) = (Q)	Percentage of Claims Paid in Year 8 (Q) / (B)
20X7	$ 8,500	$ 1,000	10.5%	20X7	$ 9,000	$ 500	5.2%
20X8	8,500	250	2.4%	20X8	9,000	500	4.9%
20X9	8,950	700	6.7%	20X9	9,700	750	7.1%
20Y0	9,950	250	2.1%				
		Average	5.4%			Average	5.7%

Percentage of Claims Paid in Year 9				Percentage of Claims Paid in Year 10			
Accident Year	Total Claims Paid End of Year 9 (R)	Claims Paid in Year 9 (R) – (P) = (S)	Percentage of Claims Paid in Year 9 (S) / (B)	Accident Year	Total Claims Paid End of Year 10 (T)	Claims Paid in Year 10 (T) – (R) = (U)	Percentage of Claims Paid in Year 10 (U) / (B)
20X7	$ 9,050	$ 50	0.5%	20X7	$ 9,075	$ 25	0.3%
20X8	9,500	500	4.9%				
		Average	2.7%			Average	0.3%

Appendix 2:

The following tables have been created to represent simple FX examples to illustrate options.

Assumptions.

Original Currency													
Cumulative Incurred							**Cumultive Paid**						
	CY							**CY**					
AY	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**AY**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
2010	1,000	1,000	1,000	1,000	1,000	1,000	**2010**	100	200	300	400	500	600
2011		1,000	1,000	1,000	1,000	1,000	**2011**		100	200	300	400	500
2012			1,000	1,000	1,000	1,000	**2012**			100	200	300	400
2013				1,000	1,000	1,000	**2013**				100	200	300
2014					1,000	1,000	**2014**					100	200
2015						1,000	**2015**						100
	Total Incurred					6,000		**Total Paid**					2,100
Fx rates	**CY**							**Unpaid Liability**					**3,900**
	2010	**2011**	**2012**	**2013**	**2014**	**2015**		**B/S amount at US$ translated rate**					**4,124**
	1.30040	1.34435	1.29995	1.35875	1.24285	1.05745							
		1.34435	1.29995	1.35875	1.24285	1.05745							
			1.29995	1.35875	1.24285	1.05745							
				1.35875	1.24285	1.05745							
					1.24285	1.05745							
						1.05745							

Option 1: Adjust FX using FX Rate at the Latest Balance Sheet Date (Perceived Prevalent Industry View)

Cumulative Incurred							**Cumultive Paid**						
	CY							**CY**					
AY	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**AY**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
2010	1,057	1,057	1,057	1,057	1,057	1,057	**2010**	106	211	317	423	529	634
2011		1,057	1,057	1,057	1,057	1,057	**2011**		106	211	317	423	529
2012			1,057	1,057	1,057	1,057	**2012**			106	211	317	423
2013				1,057	1,057	1,057	**2013**				106	211	317
2014					1,057	1,057	**2014**					106	211
2015						1,057	**2015**						106
	Total Incurred					6,345		**Total paid**					2,221
								Unpaid Liability					4,124
								FX Reconciliation					-
								B/S amount at US$ translated rate					4,124

Option 3: $US Financial Exchange Rates with no Adjustment and Volatility for FX Movements													
Cumulative Incurred							**Cumultive Paid**						
	CY							**CY**					
AY	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**AY**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
2010	1,300	1,340	1,304	1,346	1,276	1,183	**2010**	130	264	394	530	655	760
2011		1,344	1,304	1,351	1,270	1,159	**2011**		134	264	400	525	630
2012			1,300	1,353	1,260	1,130	**2012**			130	266	390	496
2013				1,359	1,254	1,106	**2013**				136	260	366
2014					1,243	1,076	**2014**					124	230
2015						1,057	**2015**						106
	Total Incurred					6,712		**Total paid**					2,588
								Unpaid Liability					4,124
								FX Reconciliation					-
								B/S amount at US$ translated rate					4,124
	Each calendar perior ending outstanding at that exchange rate							Calendar year paid at calendar year exchange rate					
	CY							**CY**					
AY	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**AY**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
2010	1,170	1,075	910	815	621	423	**2010**	130	134	130	136	124	106
2011		1,210	1,040	951	746	529	**2011**		134	130	136	124	106
2012			1,170	1,087	870	634	**2012**			130	136	124	106
2013				1,223	994	740	**2013**				136	124	106
2014					1,119	846	**2014**					124	106
2015						952	**2015**						106