

AN ALERT FROM THE BDO INSURANCE INDUSTRY PRACTICE

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NEW DISCLOSURE REQUIREMENTS FOR SHORT-DURATION INSURANCE CONTRACTS

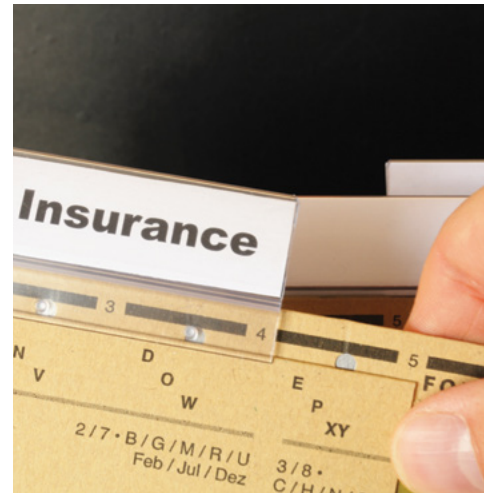
SUMMARY

Last month, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-09, *Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts*. The new guidance requires that insurance entities issuing short-duration contracts provide additional disclosures about the liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates made in measuring those liabilities. The disclosures will provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with claims. The amendments do not apply to the holder (i.e., policyholder) of short-duration contracts.

Disclosure Details

The amendments require insurance entities to disclose a roll-forward of the liability for unpaid claims and claim adjustment expenses for annual and interim reporting periods, including:

- Incurred and paid claims development information by accident year, on a net basis after risk mitigation through reinsurance, for the number of years for which claims incurred typically remain outstanding. The time period should not exceed 10 years, including the most recent reporting period presented in the statement of financial position. Each period presented in the disclosure about claims development that precedes the current reporting period is considered to be supplementary information.
- A reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the balance sheet.
- For each accident year presented of incurred claims development information:
 - the total of incurred-but-not-reported liabilities, plus expected developments on reported claims included in the liability for unpaid claims and claim adjustment expenses, accompanied by a description of reserving methodologies (as well as any changes to those methodologies)
 - quantitative information about claim frequency (unless it is impracticable to do so), accompanied by a qualitative description of methodologies used for determining claim frequency information (as well as any changes to these methodologies)



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Our team of experienced professionals understands the complexities of the industry and can help you maintain compliance with accounting and regulatory reporting requirements. For more information or questions, please contact:

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- For all claims except health insurance claims, the average annual percentage payout of incurred claims by age (i.e., history of claims duration) for the same number of accident years as presented in the items above.

The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements.

Special Rules for Health Insurance Claims

For health insurance claims, the amendments require the disclosure of 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.

Insurance entities should aggregate or disaggregate: (1) the roll-forward of the liability for unpaid claims and claim adjustment expenses; and (2) the total of the incurred-but-not-reported liabilities, plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses, 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.

Liabilities Reported at Present Value

Additional disclosures about liabilities for unpaid claims and claim adjustment expenses reported at present value include the following:

- For each period presented in the balance sheet, the aggregate amount of discount for the time value of money deducted to derive the liability for unpaid claims and claim adjustment expenses;
- For each period presented in the statement of income, the amount of interest accretion recognized; and
- The line item(s) in the statement of income in which the interest accretion is classified.

How to Prepare

For public business entities, the amendments are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. Early application is permitted.

The ASU includes an implementation guide that provides clear examples of the new disclosures. Significant development of older accident years may raise questions with financial statement users about the reliability of a company's estimates. Although the required information is typically available for each insurance subsidiary, a company with multiple subsidiaries will need to develop a process for preparing consolidated loss development information that eliminates any intercompany reinsurance agreements.

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