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June 23, 2004

At the Annual Meeting of the Canadian Institute of Actuaries in Calgary, on June 16, 2004, I outlined major flaws in current Canadian accounting policy for life insurance companies. The original format of the session was a discussion involving myself, Mr. Simon Curtis (SVP & Chief Actuary, Manulife Financial) and Mr. Mike Lombardi (Principal, Towers Perrin). Mr. Curtis and Mr. Lombardi cancelled their participation but Mr. Dan Doyle (Partner, PricewaterhouseCoopers) expanded his role as moderator to include a brief presentation. While the lack of co-panellists limited the breadth of the debate, it did provide me with the opportunity to more fully layout the flaws in current accounting policy and my recommended changes.

In his presentation, Mr. Doyle discussed the wide range of actuarial practice that exists (including variations in accounting of reinsurance and selection of interest rate scenarios), the use of bulk reserves and difficulties in valuing universal life policies. Mr. Doyle's slides are available on this website; my thanks to Mr. Doyle for making his slides available.

A transcript of my presentation follows with some information from my slides inserted. The complete slides from my presentation are also available on this website.

A question and answer session followed the presentations but it was not recorded.

Please enjoy.

Hawkins Consulting Corporation
per Michael Hawkins

Transcript of presentation by Michael Hawkins:

My fellow members and guests, good afternoon. My thanks to Dan for asking me to speak here today and for arranging this session. This session is not being recorded but I will post a transcript of my presentation on my company's website by the end of next week.

It is disappointing that my co-panellists had other priorities and are not able to join me at the podium today. The last time I presented at a CIA session was five and a half years ago in Toronto, on some of the very subjects that I will speak on today. That session was moderated by Mr. Gene Dziadyk and he wasn't able to get anyone to debate me either. A more cynical person might start to take it personally. Thankfully Dan has graciously and capably filled in and fortunately for you, you have not been consigned to listen to me alone.

I've written a series of commentaries, that are available on my company's website, that outline what I see as major flaws in Canadian GAAP for life insurance companies. I put the end blame for these flaws on the accounting profession since it sets accounting standards, but we, the actuarial profession share responsibility. I feel that the accounting profession is remote to life insurance accounting by its

deferral of details and principles to the actuarial profession and that this actuarial profession has fostered this remoteness and caused significant flaws to be established in the method that it has developed.

These flaws facilitate undesirable outcomes. They facilitate:

1. manipulation of earnings
2. smoothed earnings
3. front-ending of profits
4. hidden leverage
5. lack of comparability

I am not going to present why these undesirables are undesirable, except that they are contrary to the purpose of accounting, which is to reveal economic position and activity.

The major flaws that I have identified are:

1. actuarial valuation of assets
2. provision for interest rate risk
3. conservative bias in mortality valuation
4. lack of disclosure for changes in accounting estimate
5. netting of reinsurance
6. withdrawal as a distribution

To eliminate the undesirables, these flaws need to be corrected. If we don't correct the flaws ourselves then someone else will do it for us to the detriment of the reputation and prominence of our profession. My challenge to the leaders and members of the CIA is to investigate and address these flaws.

I've recently had some minor correspondence with Mr. Donald Keith who presented his seminal paper "Valuation of Policy Liabilities under GAAP" at the General Meeting of this CIA in 1983. Mr. Keith's paper has been a guide to me over the years in developing my thinking on insurance accounting and is still an excellent read and I highly recommend that members go back and read it again. In my recent correspondence, Mr. Keith indicated to me that,

"My main concern was to align the valuation of policy liabilities (which are really accounting estimates) with accounting principles. Any freedom allowed the actuary with such large numbers invites manipulation of the yearly emergence of earnings, rightfully a serious no-no in accounting practice."

It is my hope that the CIA accepts my challenge to investigate and address these flaws since we honour those who precede us, not by accepting where we are, but by advancing. Some of the things that I will say today will be controversial. Please accept my criticisms in the constructive manner in which they are intended.

I will now review the flaws but will not be giving company specific examples; you can go to my company's website for that.

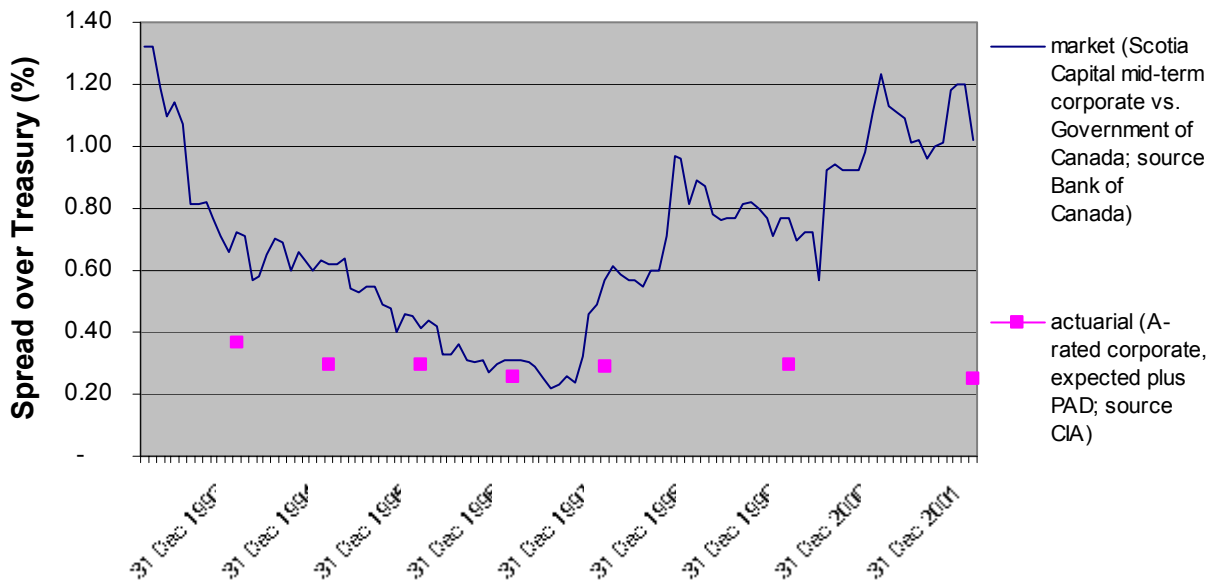
Actuarial Valuation of Assets

One of the identified flaws in current accounting policy is the embedding of an actuarial valuation of assets within the policy liability valuation.

Currently, the actuary is required to project cash flows from assets that will match off liability cash flows. By making assumptions for default costs and other variables, the actuary determines how much cash flow each asset will generate; the amount of the policy liabilities has an inverse relationship to the amount of asset cash flows generated. Problems start when assets of equal market value generate different values in the actuary's valuation. When this occurs, there exists the opportunity to manipulate earnings (by changing asset mix or by changing assumptions). There exists the opportunity to smooth earnings (by keeping assumptions constant in the face of change). There exists the opportunity to front-end profits (by getting more cash flow from a risky asset than from a risk free asset with the same market value).

Slide 3 shows how unresponsive the actuarial margin is to the outside reality. There is some bias in the numbers but they do make the point. The actuary's assumptions are nearly constant in the face of a changing reality.

Smoothing of Earnings



Slide 4 shows both front-ending and how earnings can be affected by changes in asset mix. The degree of front-ending makes the MCCSR a joke. For the BMO bond, capital requirement is 0.50% but if duration were 5, nearly 3% is front-ended. Statements that there is “conservatism” since the 0.15% hasn't been front-ended, is simply misinformation.

Asset	Spread on Treasury	Default with PAD	Expense with PAD	Net Spread on Treasury	Value of Net Spread if Duration 5
Federal Treasury	0.00%	0.00%	0.05%	+0.00%	0.00%
Ontario Dec 2012	0.31%	0.05%	0.05%	+0.26%	1.30%
GE Cap Apr 2008	0.39%	0.15%	0.07%	+0.22%	1.10%
BMO Dec 2011	0.76%	0.15%	0.07%	+0.59%	2.95%
Rogers Jun 2006	2.01%	0.70%	0.15%	+1.21%	6.05%
Commercial	1.75%	0.65%	0.55%	+0.60%	3.00%
Common Shares	5.00%	2.00%	0.50%	+2.50%	12.50%

Slide 5 shows the range of actuarial practice for the BMO bond. The 0.10% swing may not seem like much but for a \$50 billion portfolio, this small movement by an actuary would generate a \$250 million swing in earnings. If the duration were 10 instead of 5, it would be \$500 million. And as you may appreciate, these swings become more pronounced with lower quality assets.

BMO Dec 2011	Spread on Treasury	Default with PAD	Expense with PAD	Net Spread on Treasury	Value of Net Spread on Duration 5
20 th Percentile	0.76%	0.10%	0.07%	+0.54%	2.70%
Median	0.76%	0.15%	0.07%	+0.59%	2.95%
80 th Percentile	0.76%	0.20%	0.07%	+0.64%	3.20%

All of these flaws can be removed if the actuary ensures that the present value of the projected cash flows from an asset, discounted at the risk-free rate, equals the market value of that asset. In other words, set the margins so that the net spread relative to the equivalent risk-free asset is zero. This is equivalent to booking the assets at market value and discounting the liability cash flows at the risk-free rate. Or, with historical cost asset values, it is equivalent to setting the liability equal to the carrying value of assets with market value equal to the present value of the liability cash flows discounted at the risk-free rate; that is, discount the liability cash flows, then find assets with market value equal to that same amount and then set the liability equal to the carrying value of those assets. Any other approach will create arbitrage opportunities and thus will be open to manipulation and hence unseemly.

Taking the approach that I am advocating is within current standards of practice but as seen from the slides, and making a generalization, this is not practice. Currently assets are being overvalued due to the front-ending of unearned risk premiums and volatility is being smoothed away.

It is important to note that the degree of asset overvaluation is not available in financial statement disclosures. The user of the financial statements has no idea whether the liabilities are discounted at an equivalent of treasuries or treasuries plus 0.50%. Because life insurance companies are highly leveraged and the liabilities have long durations, this is critical information. This problem of actuaries overvaluing assets appears to be endemic with our profession. The pension actuaries have their debate on whether to use “actuarial” or “financial” approaches. For us life actuaries, the problem is not as dramatic since our cares invest more in fixed income than equity assets and thus the overvaluation is more constrained, but by no means insignificant. Last week in discussing the current pension debacle, Terrence Corcoran, editor of the Financial Post, commented that,

“Pension fund assets need to match liabilities based on actual market value of assets rather than the fanciful calculations of actuaries advancing their own theories of what future investment returns will be.”

Our profession is being rightfully condemned for its backwardness. The reason that life insurers are not being condemned along with pensions is that there are no disclosures to condemn; this is faint praise indeed. Change is needed.

Provision for Interest Rate Risk

Another flaw in current accounting policy involves the actuary embedding a provision for interest rate risk within the policy liabilities. Interest rate risk is just that, a risk, not a liability. The entire interest rate risk provision should be removed from the policy liability. Setting aside funds for risks is the role of solvency, not the role of policy liabilities within a GAAP financial statement. This flaw allows the opportunity for manipulation of earnings and causes smoothed earnings and lack of comparability. Earnings can be easily manipulated by decreasing or increasing mismatch, or even by simply moving assets around within a company. Earnings are smoothed by the provision absorbing the impact of adverse experience; protecting bad management. Lack of comparability exists since other industries are not allowed risk reserves.

Some may argue that this risk is a liability because we don't know what future interest rates will be and that because we need to estimate future interest rates, there should be a provision for adverse deviation. Those arguments are wrong-headed. There is no estimate to make. Because we know what market interest rates are today, we can calculate the financial position today. While we don't know the financial position tomorrow, so what? Future financial position is not what GAAP financial statements purport to report on. Future financial position is a separate matter.

Similar to what I stated for the actuarial valuation of assets, drop the complicated modelling and use current market conditions to report the current financial position.

We can't drop modelling completely though, because there are interest rate and market sensitive liabilities as well as embedded options that will still require modelling. Besides, the current modelling, if removed from the GAAP financial statements would likely resurface in solvency testing and regulatory capital. I will also add that these interest rate and market sensitive features along with optionality should be valued using "financial" not "actuarial" techniques. For example, valuation of segregated fund guarantees should be calibrated to market price and not developed in a "good and sufficient" manner within an actuarial vacuum.

You can refer to Slide 6 as an example of how current accounting policy includes risk provisions in the policy liability.

Conservative Bias in Mortality

Another flaw in current accounting policy is the conservative bias in mortality. It seems that our profession has its collective head stuck in solvency mode on this one. If a company can sell off mortality through the reinsurance market at markedly favourable prices relative to what an actuary reserves at, where is the logic? How does that make the reserves "appropriate"? The problem essentially boils down to the old VTP6 that prohibited mortality assumptions that were better than industry experience and effectively prohibited reflecting mortality improvement. Is there uncertainty in projecting mortality? You bet there is. Is there too much provision for adverse deviation in current accounting policy for mortality? You bet there is. Some have cautioned that perhaps the reinsurers are careless in putting their money where their mouths are. It doesn't matter. What matters is that the reinsurance market sets a competitive price. Both life insurers and reinsurers price products based on expectations and margins for expense and profit and sell into competitive markets. Mortality assumptions should be based on these expectations with reasonable margin for uncertainty. The mortality assumptions should never be higher than what is currently available from reinsurers. Of course, the resulting reserves won't do for solvency, but solvency is not the role of the reserves, solvency is the role of capital requirements.

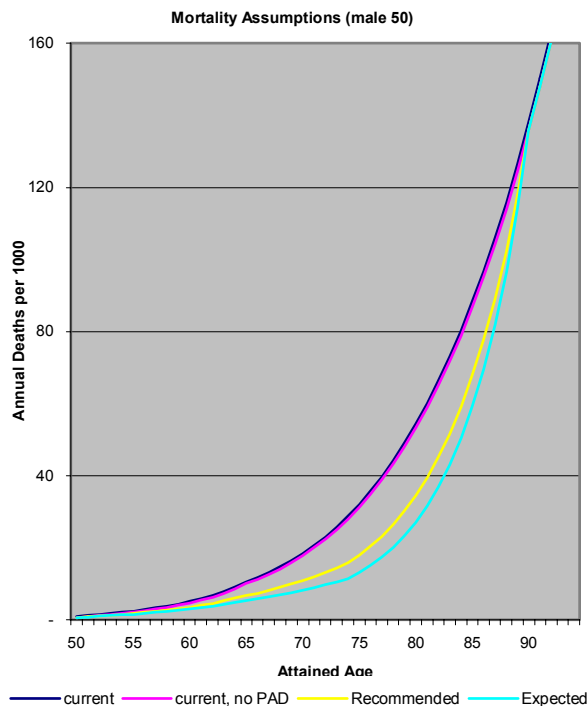
Besides causing inappropriate conservatism, this flaw also allows earnings manipulation and smoothes earnings. The transfer of mortality exposure through reinsurance impacts earnings with the release or addition of inappropriate conservatism. Such earnings effects are non-recurring but there are no disclosures to the users of the financial statements of this non-recurring activity and its earnings impact. It should be obvious that reinsurance could be used to manipulate earnings, either to smooth out volatility or to supplement earnings growth rates. Both of these manipulative practices are undesirable. The inappropriate conservatism also provides a fat margin that can absorb what would otherwise be losses and thus smoothes earnings; protecting bad management.

Slide 7 shows the historical trend in mortality improvement. This is ignored.

Historical Industry Mortality Experience		
Experience Year	Ratio of Experience to CIA 86-92	Annual Rate of Improvement
1991-1992	100.1%	
1992-1993	95.1%	5.0%
1993-1994	91.5%	3.8%
1994-1995	90.6%	1.0%
1995-1996	88.5%	2.3%
1996-1997	84.1%	5.0%
1997-1998	82.3%	2.1%
1998-1999	79.4%	3.5%
1999-2000	78.1%	1.6%
2000-2001	74.8%	4.2%

Slide 8 presents an example of the level of inappropriate conservatism in the policy liability from not using more realistic mortality assumptions and provides a graphical comparison of mortality curves.

Valuation Comparison of \$10 billion Liability Portfolio (amounts in millions)			
Mortality Basis	Liability	Margin over Expected	Excess Margin
Current	\$635	\$587	\$415
Current, no PAD	\$585	\$537	\$365
Recommended	\$220	\$172	-
Expected	\$48	-	(\$172)



If it isn't already clear, what I'm advocating for mortality is a market approach just as I did for the asset valuation and for interest rates. Let's stop here for a moment. The changes recommended thus far would remove sources of manipulation by referencing market price and allow earnings to reflect events. In his paper Mr. Keith quoted an accounting text by R.M. Skinner,

"In the nineteenth century ... conservatism frequently found expression in the creation of 'secret reserves' through deliberate understatement or omission of asset values from the balance sheet or the recording of fictitious liabilities. The possibility of abuse inherent in such accounting, however, and at the very least the damage done to the usefulness of the accounts, is generally accepted today"

I believe that this conservative bias in mortality and the provision for interest rate risk are such 'secret reserves' and that the hidden and loose nature of the actuarial valuation of assets is equally damaging. All three of these flaws need to be addressed.

Disclosing Change in Accounting Estimate

As Mr. Keith has rightly pointed out, the policy liability is an accounting estimate. General accounting principles require that changes in accounting estimate be disclosed where the change is "rare or unusual" and not necessarily for a change that is made each accounting period. The old *Recommendations for Life Insurance Company Financial Reporting* of this CIA, which were first issued in 1979, required disclosure of the change in the policy liabilities under old versus new assumptions. Such disclosure would discourage manipulation and would provide

information. Changes in assumptions may be discretionary movements within the range of actuarial practice or may arise from emerging experience. Discretionary movements within the range of actuarial practice can facilitate earnings manipulation and such practice does occur in the actuarial valuation of assets and in the valuation of segregated fund guarantees and I would not be surprised if it occurs elsewhere.

The impact on earnings of changes in assumptions is non-recurring and as such should be disclosed. While the CIA cannot force public disclosures, the CIA can require that its members include in its report to management and the auditor a detailed list of all changes in accounting estimate due to changes in assumptions accompanied by the statement that these changes are unusual. A further buttress against unseemly behaviour would be a requirement that the report split this change in accounting estimate due to changes in assumptions, into those caused by emerging experience and those that are discretionary. If management and the auditor do not wish to disclose this information to the users of the financial statements, at least the actuary has not been the barrier to disclosure.

As it stands now, the CIA's current *General Standards* require disclosure only when the assumptions are in aggregate inconsistent with the prior calculation. This is inadequate. It is inadequate because the definition of inconsistency doesn't include changes that are subjectively deemed to be caused by emerging experience. It is inadequate because the reporting is only required if there is a change in the aggregate, which allows substantial changes to be silently offset. It is inadequate because quantifying the impact of the change is only required if the actuary subjectively determines it to be both "practical and useful".

Current recommendations for disclosure of changes in accounting estimate, which changes in assumptions are, are inadequate even if current recommendations were practiced. We need to be more systematic and complete in this important area to give the accounting credibility.

Netting of Reinsurance

It is currently required that reinsurance be presented in the balance sheet on a net basis and it is current practice to provide a note to the financials indicating the gross policy liabilities. This causes real on-balance sheet leverage and credit risk to be, at best, shunted off-balance sheet and inadequately disclosed. It would be more appropriate for the balance sheet to show policy liabilities gross of reinsurance with a separate asset line summing those reinsurance treaties that are assets and a separate liability line summing those reinsurance treaties that are liabilities.

I do not know the current basis for netting. I suspect it is a hold over from statutory reporting traditions.

Looking to general accounting principles, comparison can be made to the guidance for the transfer of receivables (which deals with the asset side of the balance sheet) or to the guidance for the offsetting of financial assets and liabilities. If the comparison is to the transfer of receivables, what we are effectively doing with reinsurance is giving sale treatment. When I apply the criteria for giving sale treatment for the transfer of receivables to the transfer of

insurance risk through reinsurance, I conclude that reinsurance does not deserve sale treatment primarily due to the continued relationship between direct writer and policyholders. If the comparison is to the guidelines for the offsetting of financial assets and liabilities, there is a failure because there is no legally enforceable right to set off amounts owing under an insurance policy with amounts owed under a reinsurance treaty. In conclusion, I do not find any support under general accounting principles for netting and in fact those instances most similar suggest that netting is inappropriate.

Slide 10 shows how a simple balance sheet would be altered by eliminating the netting. Removing the netting better presents the true position, showing a more leveraged balance sheet.

Current

Invested Assets	\$1000	Policy Liabilities	\$900
		Surplus	\$100
Total	\$1000	Total	\$1000

Recommended

Invested Assets	\$1000	Policy Liabilities	\$1050
Reinsurance	\$200	Reinsurance	\$50
		Surplus	\$100
Total	\$1200	Total	\$1200

Withdrawal as a Distribution

I also view our treatment of withdrawal as another flaw in current accounting policy. Current accounting policy treats withdrawal the same as risk distributions such as mortality or disability, by modelling withdrawal using our traditional actuarial techniques. In any sense of insurance theory, withdrawal is not a “risk” to be insured. We use withdrawal to provide an accounting accommodation. It should be treated as such. This flaw causes front-ending of profits, hidden leverage and lack of comparability.

Taking a trip down memory lane, withdrawal as a distribution used by the valuation was introduced with the 1978 Canadian Method. The first VTPs that followed, dealt with lapses (which along with surrender, compromise withdrawal). VTP1 was issued in 1985 to deal with lapse supported products and VTP2 was issued in 1986 to capture the liability under renewable term policies for mortality deterioration beyond the next renewal date; both pre-PPM. These VTPs were pretty much forced on the profession by the Department of Insurance due to concerns with lapse issues. This experience forced the profession to realize that lapses can be tricky and can undermine the sufficiency of reserves. The renewable term product being sold in the mid-1980’s was often a single scale or a re-entry design. Holding just the unearned premium or only projecting to the next renewal date could miss significant liabilities. VTP2 forced projection to the end of the benefit period to ensure that all liabilities were captured. VTP2 was serving a good purpose but unfortunately, changes in the premium structure of renewal term products has caused the projection to the end of the benefit period to reduce liabilities instead of increasing them! The good intent of VTP2 is abused in current accounting policy: offer a client a 10-year term policy, the actuary calculates a reserve, then, add onto this very same policy an option for the client, for

the client, to renew at a guaranteed price, and the reserve decreases; this is illogical. Now, the current standards caution that for the term of liabilities, “Substance would supersede form” but, in my opinion, this isn’t necessarily practiced for renewable term. I think Slide 11 makes the point well.

I also find the valuation of universal life policies unappealing. Collect a dollar in premium, present value the future spreads on this dollar and bring into earnings today. Further, current accounting policy also requires that the present value of future spreads on other dollars that might be deposited in the future should also be brought into earnings today. While one can grasp the appropriateness of this method to cover off acquisition expenses, it becomes unacceptable when profits are front-ended. This is not consistent with the accounting of similar products sold by banks or mutual fund companies, or with the accounting of deferred annuities issued by life insurers themselves. In fact, the problem is highlighted in the current standards whereby we are cautioned that maybe a particular universal life policy might be more like a deferred annuity and should be valued using a shorter “term of the liabilities”. The “term of the liabilities” concept is an attempt to address some of the problems, however, it is fuzzy which leaves the valuation method insufficiently robust with regards to withdrawal.

The other piece of history that I’d like to reference is, again, Mr. Keith’s paper from 1983. In this paper Mr. Keith presented that the critical event is the point of sale and hence front-ended profits should be allowed (but thought it not very likely to occur). The profession has diverged somewhat from Mr. Keith’s contention that the critical event is the point of sale by its introduction of the “term of the liabilities” concept. Most of the dissent at that time dealt with this front-ending, in particular I note the comments of two other prominent actuaries of the day, Mr. Bob Smith and Mr. Wayne Bergquist. Mr. Smith stated that *“The life insurance policy is, in fact, an option rather than a contract, looking at it from the perspective of the policyholder.”* Mr. Bergquist stated that *“I think you can get into very dangerous accounting practices if we allow net income to be recognized up front even if the actuary thinks there’s a lot of excess profits there. He may think that but what he’s saying is the policyholder is dumber than the company and under these volatile times I begin to doubt that.”*

Now, the “term of the liabilities” concept allows continuation beyond the “term” in order to cover off acquisition expenses. But this is a one-way street: extend the term when needed to cover off acquisition expenses but don’t shorten the term when acquisition expenses are more than covered.

The other aspect of current accounting policy with regards to withdrawal, that I dislike, is the lack of disclosure that hides the true liability along with the reliance that companies place on inefficient policyholder behaviour. There are companies whose policy liability in aggregate is negative while the big insurers each have billions of dollars of reserve deficiencies that are buried within the policy liabilities and save some obscure OSFI filings would never see the light of day. And further, these reserve deficiencies are only the tip of the iceberg, the rest of the reliance on behaviour inefficiency is impenetrable.

I contend that the critical event is not solely the point of sale but that the continuation of a policy is of co-existing importance. This is consistent with the profession's introduction of the "term of the liability" concept. I also contend that reliance on seemingly inefficient continuation of a policy be recorded as an asset rather than netted within the policy liabilities and that this asset be limited to the unamortized acquisition expenses plus the cost of establishing the policy liability; I note that this limitation of the unamortized acquisition expenses is already included in our "term of the liabilities" concept when projecting beyond the "term".

My proposal is to make the policy liability valuation efficient with regards to withdrawal and to establish what I've termed a behavioural inefficiency asset. The behavioural inefficiency asset would be limited to unrecovered acquisition expenses plus the cost of establishing the policy liability, similar to how intangible assets and development costs are treated under general accounting principles. It also has similarities to U.S. GAAP for life insurance. Implementing this change would pull the persistency and lapse support out of the policy liabilities and put them up as an asset, to the extent that they are reasonably recoverable. Beyond elimination of front-ended profits, there would be no earnings effect. The main effect would be balance sheet presentation in that the reserve deficiencies and other persistency support would now be front and centre along with lapse support, there would be no more silliness that Canadian insurance companies don't have soft-assets, because the soft-assets will have been pulled out of the policy liabilities where they have been hiding.

The essence of this proposal is to set the policy liability to be the hard *liability* to the policyholder and to make the accounting accommodation for acquisition expenses on the asset side of the balance sheet.

Implementing this change would remove the front-ending of profits (due to cap on the BIA), would stop hiding the dependence of inefficient policyholder behaviour (it would be disclosed on-balance sheet) and would make insurance accounting more comparable to other industries (would be setting up assets instead of embedding on the liability side of the balance sheet).

The best accounting equivalency for the BIA is an intangible asset. Under general accounting principles, an intangible asset is recorded at cost until there is a betterment or an impairment and are required to be aggregated and presented as a separate line in the balance sheet.

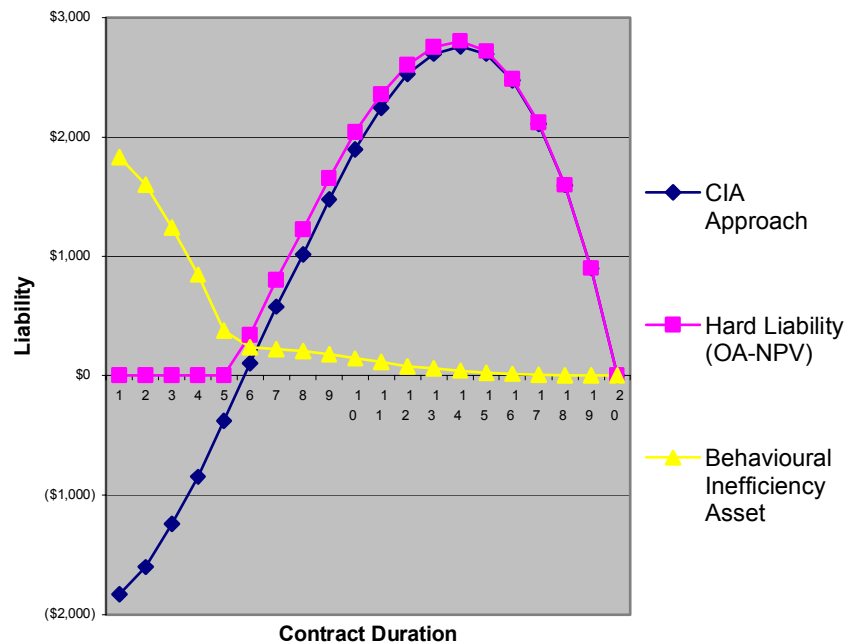
We've introduced stop-gap measures through the "term of the liabilities" concept. This is not elegant. We don't have to settle for an ugly accounting model, we can have an elegant model. The management of some of our cares won't like the airing of their dirty laundry (the persistency and lapse support), but the CIA's Statement of Purpose declares that we are "dedicated to serving the public". Our public is not insurance companies but rather policyholders and investors of these companies.

Slides 13 and 14 present the valuation of a sample policy under the two approaches. The BIA presented is that which is modelled to be recoverable but it would be limited to actual acquisition expenses. Recoverability uses our current techniques of expected lapse with provision for

adverse deviation. As you may appreciate, this change would lead to larger balance sheets once this dependence on inefficient behaviour is no longer left hiding in the policy liabilities.

Liability analysis of: 20-year term
 Face \$500,000
 Male Non-Smoker
 Issue Age 35

Contract Duration	CIA Approach (1)	CIA without Lapse Support (2)	Hard Liability (OA-NPV) (3)	Lapse Support (2) - (1)	Persistency Support (3) - (2)	Total Behavioural Inefficiency Asset (3) - (1)
1	(1,830)	(1,723)	-	107	1,723	1,830
2	(1,601)	(1,474)	-	127	1,474	1,601
3	(1,239)	(1,094)	-	145	1,094	1,239
4	(847)	(683)	-	163	683	847
5	(379)	(197)	-	182	197	379
6	103	304	340	200	37	237
7	580	800	800	220	-	220
8	1,018	1,224	1,224	206	-	206
9	1,476	1,657	1,657	180	-	180
10	1,896	2,040	2,040	143	-	143
11	2,244	2,358	2,358	114	-	114
12	2,524	2,603	2,603	79	-	79
13	2,695	2,756	2,756	61	-	61
14	2,760	2,802	2,802	42	-	42
15	2,696	2,718	2,718	23	-	23
16	2,472	2,486	2,486	14	-	14
17	2,113	2,119	2,119	6	-	6
18	1,597	1,597	1,597	-	-	-
19	899	899	899	-	-	-
20	-	-	-	-	-	-



Conclusion

There are other disjoints between current accounting policy for life insurance and general accounting principles but I've covered enough of them for today.

All that I'm asking today is that you face the facts. Current accounting policy has flaws that facilitate the undesirable outcomes of manipulation of earnings, smoothed earnings, front-ending of profits, hidden leverage and lack of comparability.

My challenge to you on leaving this meeting is to put these matters on the agenda of the CIA.

The CIA could deal with many of the underlying flaws within the existing framework:

- prescribe the embedded actuarial valuation of assets to be market based
- eliminate the provision for interest rate risk
- remove the conservative bias in the mortality valuation
- require disclosure and quantification of changes in accounting estimate

Those would be good steps. The work on reinsurance and withdrawal is a change in method that will require CICA involvement. In fact, I hope that if these matters are put on the CIA's agenda that the CIA will put them all on CICA's agenda and that they are resolved in partnership.

We may well have different reasons, but I'm sure that you will concur with my hope that I'm not up here again after another 5 years, still talking on these same subjects.

Thank you for your time and attention. □