

Introduction

The Casualty Actuarial Society (CAS) is proud to present the results of two commissioned analyses showing the impact of fair value concepts applied to property/casualty insurance companies. Last fall, the CAS sent out a request for proposal (RFP) to selected consulting firms, seeking research on the impact of the following fair value concepts on property/casualty insurance company financial statements:

- Time value of money (versus not reflecting the time value of money, which is the most common U.S. GAAP practice); and
- Risk margins to reflect the market charge for uncertainty.

Originally the CAS planned to provide limited support to one firm. However, the quality and quantity of submissions far exceeded expectations, and the CAS selected two consulting firms, Tillinghast business of Towers Perrin and PricewaterhouseCoopers LLP. These firms performed the studies for a small fraction of their normal fees, in the interest of both research and industry service. These studies represent substantial donations of their time and intellectual capital to the industry as a whole, and for this they should be commended.

The analyses relied on actual data as much as possible, so the results are as illustrative as possible as to what “would have or will” happen versus what “theoretically should or might” happen.

The target audience was the International Accounting Standards Board (IASB) and staff, who will be making critical policy decisions in 2004 or soon after regarding fair value accounting for property/casualty insurance. The CAS and the research firms felt it was critical to provide the policymakers with sound research information regarding possible impacts of fair value accounting decisions, and areas where proposals to date may need rethinking or additional detail.

The CAS believes this information will be valuable for CAS members and their employers and clients, as well as those involved with property/casualty insurer valuations.

The CAS Fair Value Steering Committee

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