

Insurance Accounting Landscape – Discount Rates

Perspectives on IAIS Consideration of “AA Rate” discounting option

IAIS Stakeholder Meeting
La Jolla, CA

Steve Belcher

Vice President – Global Insurance Accounting Policy

January 17, 2017

IASB vs FASB – Discount Rate paths

	IASB	FASB
Status of Insurance Accounting Project	Issuing final <i>Insurance Contracts</i> standard in mid 2017, effective in 2021	Issued Exposure Draft in Sept 2016, expecting to issue final standard by end of 2017, effective 2-4 years after issuance.
Discount rate - Principle	Rate that reflects the characteristics of the liability (e.g. duration, liquidity and currency)	Rate that reflects the characteristics of the liability - a risk-free rate plus an illiquidity premium
Discount rate - Method (s)	Top down approach – yield on actual or reference portfolio of assets, less adj. for expected and unexpected defaults	High-quality fixed-income instrument yield that reflects the duration characteristics of the insurance liability [interpreted as a “AA rate”]
	Bottom up approach - Risk free rate + a liquidity premium reflecting the characteristics of the liability cash flows	

MetLife's support for "A rated" Index

MetLife's comments to the Sept 2016 FASB proposal highlighted that spreads observed from an "A rated" index of bonds.....

Industry Pricing

Better align with spreads observed in insurer new business pricing for fixed rate liabilities, which, in competitive markets, reflects how an investor would deploy capital to liabilities with fixed-rate characteristics

Industry Investments

Better represent the allocation of insurer investments across the credit spectrum – which are designed to match the characteristics of insurance liabilities

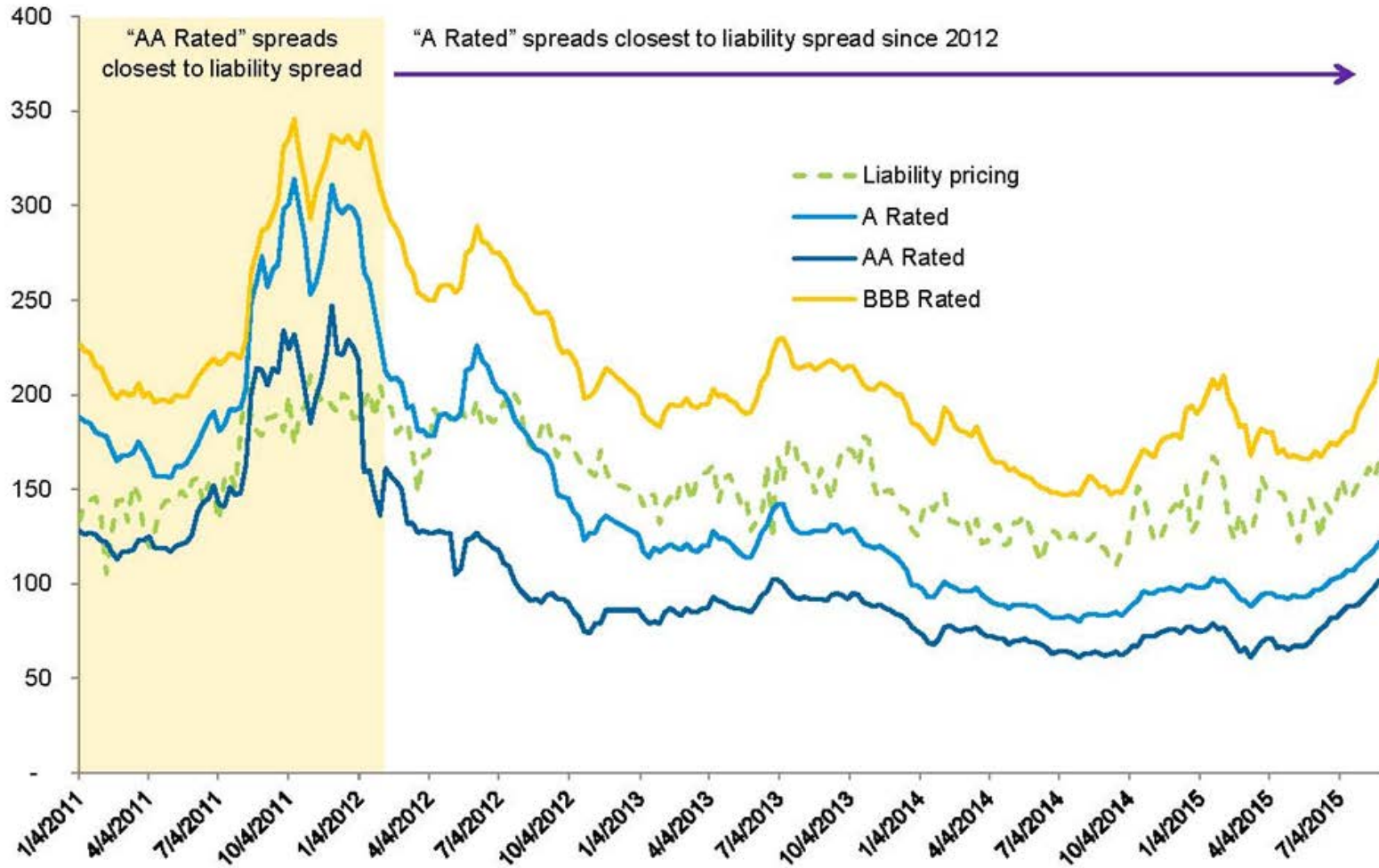
Industry Ratings

Align with the majority of insurer ratings, which establish the environment for insurance liability prices

Appendix

Industry Pricing Analysis

10-year term-certain payout annuities 2011-2015



Source: MetLife Comment Letter (#36) to the FASB on ASC 944 dated 12-15-2016 at http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=2016-330

Industry Moody's Claims Paying Ratings

Moody's Rating	Ratio by Rating	Ratio by Category
Aaa	3%	3%
Aa1	4%	23%
Aa2	3%	
Aa3	15%	
A1	24%	58%
A2	25%	
A3	9%	
Baa1	3%	15%
Baa2	8%	
Baa3	5%	
Ba2	1%	2%
Ba3	1%	
	100%	100%

Source: MetLife Comment Letter (#36) to the FASB on ASC 944 dated 12-15-2016 at http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=2016-330

FASB Decision and Objectives

FASB Tentative Decision – “High-quality fixed-income instrument yield”
[interpreted as “AA” rate]

Relevance

- Liability rate vs. own asset rate
(i.e. Risk Free + liquidity spread)

Reliability

- Verifiable, easily auditable, neutral

Comparability

- Consistent application from period to period
- Consistent application between companies

Cost/Benefit

- Acknowledgement - “No perfect discount rate”
- Ease of operability