

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2015-09
May 2015

Financial Services—Insurance (Topic 944)

Disclosures about Short-Duration Contracts

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

In June 2013, the FASB issued proposed Accounting Standards Update, *Insurance Contracts (Topic 834)* (2013 proposed Update). The objectives of the amendments in the 2013 proposed Update were to (1) increase the decision usefulness of the information about a reporting entity's insurance liabilities, including the nature, amount, timing, and uncertainty of cash flows related to those liabilities and the effect of those cash flows on the statement of comprehensive income, and (2) improve comparability between reporting entities, regardless of the type of entity issuing the contract. The guidance in the 2013 proposed Update included different recognition and measurement models for both long-duration contracts and short-duration contracts.

The feedback received from respondents overwhelmingly supported retaining in generally accepted accounting principles (GAAP) the existing recognition and measurement guidance for short-duration contracts. Those respondents noted that the existing accounting model for short-duration contracts works well and that no changes should be made to existing guidance other than to disclosure requirements.

Financial statement users commented that additional disclosures about the liability for unpaid claims and claim adjustment expenses would increase the transparency of significant estimates made in measuring those liabilities. Those disclosures would provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with claims.

The Board agreed and decided that for short-duration contracts, the insurance project should focus on making targeted improvements to existing disclosure requirements.

Who Is Affected by the Amendments in This Update?

The amendments apply to all insurance entities that issue short-duration contracts as defined in Topic 944, Financial Services—Insurance. The amendments do not apply to the holder (that is, policyholder) of short-duration contracts.

What Are the Main Provisions?

The amendments require insurance entities to disclose for annual reporting periods the following information about the liability for unpaid claims and claim adjustment expenses:

1. 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 (that need 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.
2. 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 statement of financial position.
3. For each accident year presented of incurred claims development information, 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, accompanied by a description of reserving methodologies (as well as any changes to those methodologies).
4. For each accident year presented of incurred claims development information, 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).
5. For all claims except health insurance claims, the average annual percentage payout of incurred claims by age (that is, history of claims duration) for the same number of accident years as presented in (3) and (4) above.

Insurance entities should aggregate or disaggregate those 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.

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.

Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claim adjustment expenses, described in Topic 944. 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.

For health insurance claims, insurance entities should aggregate or disaggregate (1) the rollforward 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.

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

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

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

There are limited disclosure requirements in existing GAAP for short-duration contracts about the liability for unpaid claims and claim adjustment expenses. Consequently, the amendments in this Update increase transparency of significant estimates made in measuring those liabilities, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates.

When Will the Amendments Be Effective?

For public business entities, the amendments in this Update 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 in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017.

In the year of initial application of the amendments in this Update, an insurance entity need not disclose information about claims development for a particular category that occurred earlier than five years before the end of the first financial reporting year in which the amendments are first applied if it is impracticable to obtain the information required to satisfy the disclosure requirement. For each subsequent year following the year of initial application, the minimum required number of years will increase by at least 1 but need not exceed 10 years, including the most recent period presented in the statement of financial position.

Early application of the amendments in this Update is permitted.

The amendments in this Update should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS 4, *Insurance Contracts*, addresses the financial reporting for insurance contracts by any entity that issues such contracts (described in IFRS 4 as an *insurer*). The International Accounting Standards Board (IASB) also has a project on its agenda that, when finalized, would amend existing IFRS requirements for certain insurance contracts regardless of whether issued by an insurance entity. In contrast, the amendments in this Update apply only to insurance entities that issue short-duration contracts as defined in Topic 944.

IFRS 4 requires an insurer to disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts, including (1) the process used to determine assumptions that have the greatest effect on the measurement of the recognized assets, liabilities, income, and expense and (2) a reconciliation of changes in insurance liabilities, reinsurance assets, and related deferred acquisition costs, if any. These disclosure requirements are similar to the existing disclosure requirements in Topic 944.

IFRS 4 also requires an insurer to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts. Those disclosures include information about insurance risk (both before and after risk mitigation through reinsurance), including information about the following:

1. Sensitivity to insurance risk
2. Concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (for example, type of insured event, geographical area, or currency)
3. Actual claims compared with previous estimates (that is, claims development). The disclosure about claims development should go back

to the period in which the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but it need not exceed 10 years. An insurer need not disclose this information for claims for which the uncertainty about the amount and timing of claims payments is typically resolved within one year.

Although the amendments in this Update do not require disclosures about the sensitivity to insurance risk and concentrations of insurance risk, the amendments do require insurance entities to disclose information similar to IFRS 4 about claims development, albeit at a lower level of aggregation than what is required by IFRS 4.

In June 2013, the IASB issued the revised Exposure Draft, *Insurance Contracts* (revised 2013 IASB Exposure Draft), which establishes principles that an entity would apply to report useful information to users of its financial statements about the nature, amount, timing, and uncertainty of cash flows from insurance contracts. The revised 2013 IASB Exposure Draft would apply to all entities that issue contracts that meet the definition of an insurance contract, with certain scope exemptions. The revised 2013 IASB Exposure Draft proposes new recognition, measurement, presentation, and disclosure guidance. The amendments in this Update apply only to insurance entities that issue short-duration contracts and only amend disclosure requirements. As a result, the recognition, measurement, and presentation guidance for short-duration contracts under GAAP will differ from the guidance under IFRS when the IASB finalizes its guidance.

The revised 2013 IASB Exposure Draft would require an entity to disclose reconciliations of insurance contract assets and liabilities. The amendments in this Update require insurance entities to similarly disclose in their interim and annual financial statements a rollforward of the liability for unpaid claims and claim adjustment expenses.

The revised 2013 IASB Exposure Draft also would require an entity to disclose actual claims compared with previous estimates of the undiscounted amount of the claims (that is, claims development). The disclosure about claims development would go back to the period in which the earliest material claims arose for which there was uncertainty about the amount and timing of the claims payments, but it need not exceed 10 years. The entity need not disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. The entity would reconcile the disclosure about claims development to the aggregate carrying amount of the insurance contracts in a liability position and insurance contracts in an asset position.

The amendments in this Update also require insurance entities to disclose incurred and paid claims development information that need not exceed 10 years, including the most recent reporting period presented in the statement of financial position, but that should present information for the number of years for which claims incurred typically remain outstanding. However, periods presented that precede the most recent reporting period are considered supplementary information.

Furthermore, there is no exemption for information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. The amendments also require a reconciliation of the disclosures about claims development to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses as well as separate disclosure of reinsurance recoverable on unpaid claims.

The revised 2013 IASB Exposure Draft and the amendments in this Update both provide a disaggregation principle that states that an entity should aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics. The guidance in that Exposure Draft and in this Update also provides examples of disaggregation categories that include major product line, geography, or reportable segment.

The revised 2013 IASB Exposure Draft would require additional disclosures that are not required by the amendments in this Update, for example, qualitative and quantitative information about the nature and extent of risks arising from insurance contracts, including a sensitivity analysis that shows any material effect on profit or loss and equity. The amendments in this Update require disclosures that are not required by the revised 2013 IASB Exposure Draft, including disclosures of the history of claims duration, incurred-but-not-reported liabilities plus expected development on reported claims, and information about claim frequency. The IASB also may revise the proposed disclosure requirements in its revised 2013 Exposure Draft. Those revisions may make the final IASB disclosures more converged or less converged with the requirements in this Update.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the following new Master Glossary terms, with a link to transition paragraph 944-40-65-1, as follows:

Accident Year

The year in which a covered event (as defined by the terms of the contract) occurs.

Health Insurance Claims

Claims related to the cost of medical treatments (other than claims related to liability insurance that covers claims against the insured for injury of or by others, such as, but not limited to, workers' compensation, disability, and general liability insurance).

Amendments to Subtopic 270-10

3. Amend paragraph 270-10-50-7, with a link to transition paragraph 944-40-65-1, as follows:

Interim Reporting—Overall

Disclosure

> **Guidance Related to Disclosure of Other Topics at Interim Dates**

270-10-50-7 The following may not represent all references to interim disclosure:

- a. For business combinations and combinations accounted for by **not-for-profit entities**, see Sections 805-10-50, 805-20-50, 805-30-50, 805-740-50, and 958-805-50.
- b. For compensation-related costs, see paragraphs 715-60-50-3 and 715-60-50-6.
- c. For disclosures required for entities with oil- and gas-producing activities, see paragraph 932-270-50-1.
- d. For disclosures related to prior interim periods of the current fiscal year, see paragraph 250-10-50-11.
- e. For fair value requirements, see Section 820-10-50.
- f. For guarantors, see Section 460-10-50.
- g. For pensions and other postretirement benefits, see paragraphs 715-20-50-6 through 50-7.
- h. For reportable segments, see paragraphs 280-10-50-39 and 280-10-55-16.
- i. For suspended well costs and interim reporting, see Section 932-235-50.
- j. For applicability of disclosure requirements related to risks and uncertainties, see paragraph 275-10-15-3.
- k. For discontinued operations, see paragraphs 205-20-50-1 through 50-7.
- l. For disposals of individually significant components of an entity, see paragraph 360-10-50-3A.
- m. For insurance entities that account for short-duration contracts, see paragraphs 944-40-50-3 and 944-40-50-4E.

Amendments to Subtopic 944-40

4. Amend paragraphs 944-40-50-1 and 944-40-50-3 through 50-5, supersede paragraph 944-40-50-2, and add paragraphs 944-40-50-4A through 50-4I and related headings, with a link to transition paragraph 944-40-65-1, as follows:

Financial Services—Insurance—Claim Costs and Liabilities for Future Policy Benefits

Disclosure

General

944-40-50-1 ~~Insurance entities~~An insurance entity shall disclose in their/its financial statements the basis for estimating the liabilities for unpaid **{add glossary link to 2nd definition}**claims**{add glossary link to 2nd definition}** and **claim adjustment expenses**.

944-40-50-2 Paragraph superseded by Accounting Standards Update 2015-09. ~~The requirements in paragraphs 944-40-50-3 through 50-4 apply to annual and complete sets of interim financial statements prepared in conformity with generally accepted accounting principles (GAAP).~~

944-40-50-3 For annual and interim reporting periods ~~each fiscal year for which an income statement is presented~~, all of the following information about the **liability for unpaid claims** and **{add glossary link}**claim adjustment expenses**{add glossary link}** shall be ~~disclosed~~ presented in a tabular rollforward:

- a. The balance in the liability for unpaid **{add glossary link to 2nd definition}**claims**{add glossary link to 2nd definition}** and claim adjustment expenses at the beginning ~~and end~~ of each fiscal year presented in the statement of income, and the related amount of **reinsurance** recoverable
- b. ~~Incurred~~Year-to-date incurred claims and claim adjustment expenses with separate disclosure of the provision for insured events of the current fiscal year and of increases or decreases in the provision for insured events of prior fiscal years
- c. ~~Payments~~Year-to-date payments of claims and claim adjustment expenses with separate disclosure of payments of claims and **{remove glossary link}**claim**{remove glossary link}** adjustment expenses attributable to insured events of the current fiscal year and to insured events of prior fiscal years
- cc. The ending balance in the liability for unpaid claims and claim adjustment expenses and the related amount of reinsurance recoverable.
- d. Subparagraph superseded by Accounting Standards Update 2015-09. The reasons for the change in incurred claims and claim adjustment expenses recognized in the income statement attributable to insured events of prior fiscal years and should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects. [Content amended and moved below]

In addition, an insurance entity shall disclose the~~The~~ reasons for the change in incurred claims and claim adjustment expenses recognized in the income statement attributable to insured events of prior fiscal years and ~~should~~ indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects. **[Content amended as shown and moved from (d)]**

944-40-50-4 For annual reporting periods, an insurance entity~~Insurance entities~~ shall disclose management's policies and methodologies for estimating the liability

for unpaid claims and claim adjustment expenses for difficult-to-estimate liabilities, such as any of the following:

- a. Claims for toxic waste cleanup
- b. Asbestos-related illnesses
- c. Other environmental remediation exposures.

Short-Duration Contracts

> Information about the Liability for Unpaid Claims and Claim Adjustment Expenses

944-40-50-4A For **health insurance claims**, an insurance entity shall aggregate or disaggregate the information in paragraph 944-40-50-3 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 (see paragraphs 944-40-55-9A through 55-9C).

944-40-50-4B For annual reporting periods, an insurance entity shall disclose in a tabular format, as of the date of the latest statement of financial position presented, undiscounted information about claims development by **accident year**, including separate information about both of the following on a net basis after risk mitigation through reinsurance:

- a. Incurred claims and allocated **claim adjustment expenses**
- b. Paid claims and allocated claim adjustment expenses.

The disclosure about claims development by accident year should present information for the number of years for which claims incurred typically remain outstanding, but need not exceed 10 years including the most recent reporting period presented. All periods presented in the disclosure about claims development that precede the most recent reporting period shall be considered supplementary information. For the most recent reporting period presented, the disclosure about claims development shall include the total net outstanding claims for accident years not separately presented as part of the claims development (see paragraph 944-40-55-9E).

944-40-50-4C For annual reporting periods, an insurance entity shall reconcile the disclosure about incurred and paid claims development information to the aggregate carrying amount of the **liability for unpaid claims** and claim adjustment expenses for the most recent reporting period presented, with separate disclosure of reinsurance recoverable on unpaid claims (see paragraph 944-40-55-9E).

944-40-50-4D For annual reporting periods, an insurance entity shall quantitatively disclose the following for each accident year presented in the disclosures about incurred claims development (see paragraph 944-40-55-9E) for the most recent reporting period presented:

- a. 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
- b. Cumulative claim frequency information, unless it is impracticable to do so. If it is impracticable to disclose claim frequency information, where the term *impracticable* has the same meaning as impracticability in paragraph 250-10-45-9, an insurance entity shall disclose that fact and explain why the disclosure is impracticable.

944-40-50-4E For interim and annual reporting periods, for health insurance claims, an insurance entity shall disclose 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.

944-40-50-4F An insurance entity shall describe both of the following:

- a. Its methodologies for:
 - 1. Determining the presented amounts of both incurred-but-not-reported liabilities and expected development on reported claims required by paragraphs 944-40-50-4D through 50-4E
 - 2. Calculating cumulative claim frequency information required by paragraph 944-40-50-4D
- b. Significant changes to those methodologies. When describing (2) above the insurance entity also shall include whether frequency is measured by claim event or individual claimant and how the insurance entity considers claims that do not result in a liability (see paragraph 944-40-55-9D).

944-40-50-4G For annual reporting periods, for all claims except health insurance claims, an insurance entity shall disclose as supplementary information the historical average annual percentage payout of incurred claims by age, net of reinsurance (that is, history of claims duration by age), as of the most recent reporting period. This information shall be disclosed for the same number of accident years presented in the disclosures required by paragraph 944-40-50-4B (see paragraphs 944-40-55-9F through 55-9G).

944-40-50-4H An insurance entity shall disclose the information required by paragraphs 944-40-50-4B through 50-4G and 944-40-50-5 in a manner that allows users to understand the amount, timing, and uncertainty of cash flows arising from the liabilities. An insurance entity shall aggregate or disaggregate the disclosures in paragraphs 944-40-50-4B through 50-4G and 944-40-50-5 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 (see paragraphs 944-40-55-9A through 55-9C). 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.

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.

> > Information about Amounts Reported at Present Value

944-40-50-5 For liabilities for unpaid claims and claim adjustment expenses that are presented at present value in the financial statements, an insurance entity~~Insurance entities~~ shall disclose ~~both~~all of the following in ~~its~~their annual financial statements:

- a. For each period presented in the statement of financial position, the~~The~~ carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at present value ~~in the financial statements~~
- 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 item(s) in the statement of income in which the interest accretion is classified.

5. Add paragraphs 944-40-55-9A through 55-9G and their related headings and the Subsection title, with a link to transition paragraph 944-40-65-1, as follows:

Implementation Guidance and Illustrations

Short-Duration Contracts

> Implementation Guidance

> > Information about the Liability for Unpaid Claims and Claim Adjustment Expenses

944-40-55-9A Paragraphs 944-40-50-4A and 944-40-50-4H require an insurance entity to aggregate or disaggregate certain 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 to allow

users to understand the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities. Consequently, 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**.

944-40-55-9B When selecting the type of category to use to aggregate or disaggregate disclosures, an insurance entity should consider how information about the insurance entity's liability for unpaid claims and claim adjustment expenses has been presented for other purposes, including all of the following:

- a. Disclosures presented outside the financial statements (for example, in earnings releases, annual reports, statutory filings, or investor presentations)
- b. Information regularly viewed by the chief operating decision maker for evaluating financial performance
- c. Other information that is similar to the types of information identified in (a) and (b) and that is used by the insurance entity or users of the insurance entity's financial statements to evaluate the insurance entity's financial performance or make resource allocation decisions.

944-40-55-9C Examples of categories that might be appropriate include any of the following:

- a. Type of coverage (for example, major product line)
- b. Geography (for example, country or region)
- c. Reportable segment as defined in Topic 280 on segment reporting
- d. Market or type of customer (for example, personal or commercial lines of business)
- e. Claim duration (for example, claims that have short settlement periods or claims that have long settlement periods).

When applying the guidance in paragraphs 944-40-50-4A and 944-40-50-4H, an insurance entity should not aggregate amounts from different reportable segments according to Topic 280.

944-40-55-9D Claim frequency information may be tracked and analyzed by an insurance entity in a variety of ways. For example, an insurance entity may track claim frequency by claim event (such as a car accident), while another entity may track claim frequency by individual claimant (such as the number of individual claimants in a car accident). Also, certain types of insurance coverage, such as excess-of-loss insurance or supplemental insurance, can experience claim activity that does not result in a liability to the insurance entity. This Subtopic does not require a particular methodology. Therefore, to allow users to understand the context of the information presented, an insurance entity should describe qualitatively the methodologies used to determine the quantitative claim frequency information presented. In certain circumstances, such as providing reinsurance on

short-duration contracts or participating in residual market pools, an insurance entity may not have access to claim frequency information, in which case it may be impracticable to disclose this information. The insurance entity should disclose that fact and explain why the disclosure is impracticable.

> Illustrations

>> Example 1: Disclosure of Information about the Liability for Unpaid Claims and Claim Adjustment Expenses

944-40-55-9E The following Example illustrates the information that an insurance entity with one major short-duration product line (homeowners' insurance) would disclose in its 20Y6 financial statements to meet the requirements of paragraphs 944-40-50-4B through 50-4D.

Note X: Liability for Unpaid Claims and Claim Adjustment Expenses

The following is information about incurred and paid claims development as of December 31, 20Y6, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

The information about incurred and paid claims development for the years ended December 31, 20X7, to 20Y5, is presented as supplementary information.

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

Homeowners' Insurance
in thousands

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 20Y6		
Accident Year	For the Years Ended December 31,										Total of Incurred-but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims	
	20X7	20X8	20X9	20Y0	20Y1	20Y2	20Y3	20Y4	20Y5	20Y6			
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										
Accident Year	For the Years Ended December 31,									
	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.]

	<u>December 31, 20Y6</u>
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	<u>42,526</u>
Reinsurance recoverable on unpaid claims	
Homeowners' insurance	13,880
Other insurance lines	283
Total reinsurance recoverable on unpaid claims	<u>14,163</u>
Insurance lines other than short-duration	3,315
Unallocated claims adjustment expenses	2,420
Other	10
	<u>5,745</u>
Total gross liability for unpaid claims and claim adjustment expense	<u>\$ 62,434</u>

> > 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)
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	<u>33.8%</u>			Average	<u>14.9%</u>

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)
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	<u>8.5%</u>			Average	<u>7.2%</u>

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%

6. Add paragraph 944-40-65-1 and its related headings as follows:

> Transition Related to Accounting Standards Update No. 2015-09, Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts

944-40-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-09, Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts:

- a. A public business entity shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.
- b. All other entities shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017.
- c. Early application of the pending content that links to this paragraph is permitted.

- d. The pending content that links to this paragraph shall be applied retrospectively, except for those requirements that apply only to the current period.
- e. In the year of initial application of the pending content that links to this paragraph, an insurance entity need not disclose information about claims development for a particular category that occurred earlier than five years before the end of the first period in which the pending content that links to this paragraph is first applied if it is impracticable to obtain the information required for disclosure. For each subsequent year following the year of initial application of the pending content that links to this paragraph, the minimum required number of years will increase by at least 1 year but need not exceed 10 years, including the most recent period presented in the statement of financial position.

7. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
270-10-50-7	Amended	2015-09	05/21/2015

8. Amend paragraph 944-40-00-1, by adding the following items to the table, as follows:

944-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Accident Year	Added	2015-09	05/21/2015
Health Insurance Claims	Added	2015-09	05/21/2015
944-40-50-1	Amended	2015-09	05/21/2015
944-40-50-2	Superseded	2015-09	05/21/2015
944-40-50-3 through 50-5	Amended	2015-09	05/21/2015
944-40-50-4A through 50-4I	Added	2015-09	05/21/2015
944-40-55-9A through 55-9G	Added	2015-09	05/21/2015
944-40-65-1	Added	2015-09	05/21/2015

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The objectives of the disclosures about short-duration contracts are to increase transparency of significant estimates made in measuring the liability for unpaid claims and claim 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 issued by insurance entities and the development of loss reserve estimates. Those objectives align with the objective of financial reporting, which is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

Background Information

BC3. In October 2008, the Board undertook the insurance contracts project jointly with the IASB with an objective of developing common, high-quality guidance that would establish the principles that an entity would apply in the recognition, measurement, presentation, and disclosure of insurance contracts (including reinsurance) even if the contracts are not issued by an insurance entity. The Board deliberated issues together with the IASB because insurance is a global industry with many insurance entities operating (mostly through subsidiaries) in numerous countries. Many analysts and investors compare those entities, and the comparison can be more difficult in the presence of different accounting standards that are not easily reconcilable. In addition, the Board noted that there were several areas for potential improvement and areas in which there were inconsistencies between existing GAAP for contracts issued by insurance entities and more recently issued guidance. Those included, among other items, reflection of the time value of money for property, liability, and short-term health-insurance-contract liabilities in which the payout occurs more than a year after the insured event. In

addition, the Board identified several areas in which diversity exists in practice and viewed this as an opportunity to mitigate, if not eliminate, that diversity.

BC4. In July 2010, the IASB issued an Exposure Draft, *Insurance Contracts* (2010 IASB Exposure Draft). During the development of the 2010 IASB Exposure Draft, most of the discussions about the proposed insurance accounting approaches were held jointly with the FASB. Although the Boards reached common decisions in many areas, they reached different conclusions in others. The FASB sought additional input from its stakeholders before issuing an Exposure Draft, in large part to assess whether the proposed new accounting guidance would represent a sufficient improvement to GAAP, which would justify issuing new guidance.

BC5. In September 2010, the FASB issued a Discussion Paper, *Preliminary Views on Insurance Contracts* (2010 Discussion Paper), to seek such input. The Board received 79 comment letters in response to the 2010 Discussion Paper and, in subsequent discussions, considered relevant recommendations and suggestions from those comment letters and the 253 comment letters on the 2010 IASB Exposure Draft.

BC6. In June 2013, after jointly deliberating many of the issues arising from the 2010 Discussion Paper and the 2010 IASB Exposure Draft, the Board issued a proposed Accounting Standards Update, *Insurance Contracts (Topic 834)* (2013 proposed Update), and the IASB issued a revised Exposure Draft, *Insurance Contracts* (revised 2013 IASB Exposure Draft).

BC7. The objectives of the amendments in the 2013 proposed Update were to (a) increase the decision usefulness of the information about a reporting entity's insurance liabilities, including the nature, amount, timing, and uncertainty of cash flows related to those liabilities and the effect on the statement of comprehensive income, and (b) provide comparability, regardless of the type of entity issuing the contract. The 120-day comment period on the amendments in the 2013 proposed Update ended on October 25, 2013, and the Board received 206 comment letters. The Board also conducted extensive outreach with insurance industry trade groups, preparers, auditors, and financial statement users.

BC8. Throughout the insurance project, the Board carefully evaluated the costs and benefits of various paths forward to improve financial reporting for short-duration contracts. During its redeliberations, the Board considered this feedback, which primarily included concerns about the following:

- a. Changes to existing recognition, measurement, and presentation guidance for short-duration contracts. Respondents commented that the existing accounting model for short-duration contracts works well, that it is well understood, and that no changes should be made to existing guidance other than improvements to required disclosures.
- b. The scope of the guidance in the 2013 proposed Update that would apply to all reporting entities that issue insurance contracts (as defined in that proposed Update), including reporting entities other than insurance

entities. Respondents commented that the scope of insurance contract accounting should be limited to reporting entities subject to insurance regulation, because the benefits would not justify the costs of changing the accounting for insurance contracts issued by other than insurance entities.

- c. Issues with the required detailed disclosures. Respondents noted that certain required disclosures, such as (1) qualitative and quantitative information about the nature and extent of the risks arising from contracts issued by insurance entities, (2) quantitative information about inputs and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, and (3) quantitative and qualitative information about the sensitivity of insurance balances to changes in inputs, would not provide financial statement users with decision-useful information and would be voluminous, costly to implement and audit, and operationally burdensome.

BC9. The Board addressed those concerns during redeliberations of the amendments in the 2013 proposed Update. The Board decided that the costs of changing the recognition, measurement, and presentation guidance for short-duration contracts would not justify the benefits, especially if the guidance did not substantially converge with the 2013 IASB Exposure Draft. Therefore, the Board decided that for short-duration contracts, the insurance project should focus on making targeted improvements to existing disclosure requirements. Additionally, the Board decided to limit the scope of the project to insurance entities within the scope of Topic 944.

BC10. During redeliberations of targeted improvements to existing disclosure requirements, the Board considered the feedback received and decided not to require certain disclosures, such as the nature and extent of risks arising from contracts issued by insurance entities and a quantitative sensitivity analysis of changes in insurance balances, because the benefits did not justify the costs. Additionally, the Board decided to retain certain disclosures in the 2013 proposed Update, such as incurred and paid claims development tables and disclosure of amounts presented at present value. As part of the redeliberation process, Board members and staff performed additional outreach with many stakeholders that noted that additional information about (a) claims frequency, severity, and duration, (b) significant changes in methodologies and assumptions, and (c) health insurance claims would increase the transparency of the liability for unpaid claims and claim adjustment expenses and provide financial statement users with decision-useful information. In light of this feedback, the Board decided to require these additional disclosures.

BC11. As the redeliberation process continued, Board members and staff performed further outreach with financial statement users, preparers, auditors, and regulators to assess the costs and benefits of the disclosures in this Update. On the basis of that feedback and the feedback received throughout the project, the Board proposed disclosures that would align more closely with information that

insurance entities prepare internally or for statutory reporting requirements. Those disclosures proposed by the Board also would align with information that could be disclosed without disproportionate cost to preparers to respond to financial statement users' requests for additional information about and transparency of the liability for unpaid claims and claim adjustment expenses.

BC12. As with any new guidance, there will be costs to implement the disclosure requirements in this Update. The magnitude of the following costs will vary based on the extent of an insurance entity's international operations and the diversity of its product offerings:

- a. Initial costs to implement changes in or develop new systems, processes, and controls used to aggregate data for nondomestic operations and ongoing costs related to these systems, processes, and controls
- b. Costs to automate the process of compiling financial statement disclosures and improve information systems that store the data required to comply with the disclosure requirements
- c. Initial and ongoing fees paid to external auditors to audit the enhanced internal control processes related to the disclosures
- d. Initial personnel costs to modify processes and internal controls and ongoing personnel costs to comply with the disclosure requirements.

BC13. However, the Board also noted that a significant amount of the data needed for the financial statement note disclosures already should be available to entities because of statutory reporting requirements and that this will mitigate some of the cost increases described in paragraph BC12. For example, the Board's decision not to exclude expected development on reported claims from the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims is consistent with the statutory definition of incurred-but-not-reported liabilities and allows insurance entities to leverage established statutory processes.

BC14. The Board considered those costs in the analysis of the benefits and costs for the guidance as a whole and in relation to specific disclosure requirements when making its decisions. In its redeliberations, the Board also considered the feedback received about operability issues with auditing the required disclosures, including that:

- a. There may be difficulties with determining the level of additional procedures that are needed to audit the required disclosures because some audit procedures are performed on the data used to calculate the liability for unpaid claims and claim adjustment expenses but the level of disaggregation may be different.
- b. There may be additional procedures that successor auditors would need to perform to audit or review the disclosed information, including review of the predecessor auditor's work papers.

BC15. During its redeliberations, the Board acknowledged the potential for overlap with certain of the U.S. Securities and Exchange Commission's (SEC) requirements, including the SEC's *Management's Discussion and Analysis* (MD&A) disclosures, specifically those required by the SEC Securities Act Industry Guide No. 6, *Disclosures Concerning Unpaid Claims and Claim Adjustment Expenses of Property-Casualty Insurance Underwriters*. During its deliberations on this project, the Board's intention was to create new, complementary disclosure requirements that provide meaningful incremental information to financial statement users beyond those provided by the SEC.

BC16. As discussed in paragraph BC17, financial statement users currently gather partial unaudited information from statutory filings and supplementary earnings packages to perform their analyses. Because statutory information is generally only available for domestic insurance entities and MD&A disclosures are aggregated at the consolidated level, significant effort is required to compile what is still incomplete information. The Board acknowledges the considerable benefits to financial statement users of the amendments in this Update that require insurance entities to disclose information that is useful to analyze insurance entities. Overall, the Board concluded that the improvements to financial reporting including (a) increased transparency of significant estimates made in measuring liabilities that arise from issued contracts, (b) improved comparability of insurance entities' financial statements, and (c) more decision-useful information about the liability for unpaid claims and claim adjustment expenses justify the costs of implementing the disclosure requirements in this Update.

Incurred and Paid Claims Development Tables

BC17. Many preparers representing property and casualty insurance entities that commented on the 2013 proposed Update supported disclosures of claims development tables to provide financial statement users with information to better understand an insurance entity's ability to underwrite and anticipate costs associated with claims. Many financial statement users commented that disclosures of incurred and paid claims development tables would increase the transparency of the liability for unpaid claims and claim adjustment expenses by facilitating an analysis of initial liability estimates and subsequent adjustments to those estimates. Financial statement users also noted that information about the liability for unpaid claims and claim adjustment expenses is available from statutory filings and MD&A in Form 10-K but that the usefulness of this information is limited by the following:

- a. Incurred and paid claims development tables in the regulatory Annual Statement, Schedule P, *Analysis of Losses and Loss Expenses*, include 10 years of claims development by line of business, but claims development is provided for each legal entity separately and is required only for entities domiciled in the United States. For domestic entities, significant effort is required to aggregate data across various legal entities

for each line of business and to reconcile the information to an insurance entity's GAAP financial statements, whereas for multinational entities, aggregate statutory information cannot be reconciled to GAAP financial statements.

- b. The loss reserve development table required by paragraph 2 of the SEC's Securities Act Industry Guide 6 presents information for the consolidated entity for 10 calendar years. The Board decided that disaggregated information by accident year and policy characteristics would be more useful in understanding how reserve estimates change in relation to payment history for different policy characteristics.

BC18. In light of this feedback, the Board decided to require all insurance entities that issue short-duration contracts to disclose incurred and paid claims development tables that include information for the number of years for which claims incurred typically remain outstanding, but for which the disclosure need not exceed 10 years, including the most recent reporting period presented. All claims development years should be presented together to best communicate development trends to users. The Board noted that, on the basis of user feedback, the most useful way to present the disclosures about claims development is by accident year and disaggregated in accordance with the guidance discussed in paragraphs BC31–BC34.

BC19. In redeliberating the guidance for disclosures about claims development, the Board considered whether it should require presentation of only 2 or 3 years of information about claims development or whether it should require presentation of up to 10 years of information about claims development. The Board concluded that the benefits of requiring the presentation of up to 10 years of information about claims development justify the costs for the following reasons:

- a. Changes in liability estimates and management's reserving practices would be less transparent if only two or three years of information about claims development were presented.
- b. Requiring only two or three years of information about claims development would increase costs to financial statement users because compiling information for a meaningful trend analysis may require information from multiple years and because financial statement users may undergo significant effort and incur significant costs to compile relevant information for each insurance entity that they analyze.

BC20. The Board acknowledged that requiring up to 10 years of information can have repercussions on auditor independence and could add significant costs and complexities to auditor independence assessments of predecessor and successor auditors, especially when there are business combinations. However, as discussed in paragraph BC19, the Board concluded that the benefits of providing up to 10 years of information justify the costs, and, therefore, on the basis of discussions with auditors and regulators, the Board decided that all years presented in the claims development tables that precede the most recent reporting

period should be considered supplementary information. This decision is in response to independence concerns about auditing all of the years included in the claims development tables and leveraging existing, specific audit guidance that defines the procedures to be applied by independent auditors on required supplementary information. The Board does not prescribe a particular location for presenting supplementary information. In practice, required supplementary information may be presented as a supplementary schedule outside the audited notes or within financial statement notes accompanied by a clear distinction between supplementary information and other disclosed information. The Board also noted that entities are not precluded from having the entire claims development tables audited.

BC21. The Board decided that the reconciliation of the disclosure about incurred and paid claims development to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses for the most recent reporting period presented should include separate disclosure of reinsurance recoverable on unpaid claims. That disclosure should be disaggregated in the same way that an insurance entity disaggregates its disclosure about claims development (see paragraphs BC31–BC34) because it will provide greater transparency of an insurance entity's reinsurance strategies and changes in those strategies.

Frequency and Severity

BC22. Financial statement users commented that understanding claims frequency and severity is very important for understanding property and casualty insurance companies and that additional disclosures about claims frequency and severity would increase the transparency of an insurance entity's estimation practices and claims experience. Financial statement users currently have access to claims frequency information included in statutory Schedule P filings, but because this information is only available on a legal entity basis for entities domiciled in the United States, significant effort is required to compile and aggregate the information. The Board, therefore, decided to require an insurance entity to disclose cumulative claims frequency information for each accident year presented in the disclosures about incurred claims development, unless it is impracticable to do so. The impracticability exception addresses situations for which claim frequency information is not available, such as, but not limited to, assumed reinsurance or residual market pools.

BC23. To enable users to interpret claim frequency information properly, the Board also decided that an insurance entity should disclose its methodologies for calculating cumulative claim frequency information as well as any significant changes to those methodologies. The disclosed methodologies would allow users to understand how an insurance entity calculated frequency by clarifying whether frequency information is measured by claim event or by individual claimant (as well as why its approach provides better information) and how the insurance entity considered claims that did not result in a liability.

BC24. The Board noted that financial statement users can use the information about claims frequency and the incurred claims development tables to calculate the average severity of reported claims. However, to calculate the average severity of reported claims, liabilities for claims incurred but not reported should be excluded. Therefore, the Board decided to require that an insurance entity present in the incurred claims development tables separate information about 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. At present, users and preparers generally understand incurred-but-not-reported liabilities as including expected development on reported claims; therefore, the Board decided to include expected development on reported claims in the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims to avoid introducing a new incurred-but-not-reported metric. The Board's decision will align the incurred-but-not-reported definitions in GAAP and statutory reporting. And, a requirement that an insurance entity describe the disclosure as the total of incurred-but-not-reported liabilities plus expected development on reported claims makes it clear that the number is not just incurred-but-not-reported liabilities. Preparers expressed concern that the various reserving methodologies used by insurance entities will result in inconsistent disclosure of incurred-but-not-reported liabilities plus expected development on reported claims across the industry as well as across different business lines within a company. To address those concerns, the Board decided that an insurance entity should disclose its methodologies for determining the presented amounts of incurred-but-not-reported liabilities plus expected development on reported claims as well as any significant changes to those methodologies.

The History of Claims Duration

BC25. The Board decided that an insurance entity should disclose the average annual percentage payout of claims (the history of claims duration) because disclosures about the historical timing of claims payments will provide financial statement users with information that can be used in independent discounting analyses. Disclosures about the historical timing of claims payments also will provide insight into an insurance entity's claim settlement practices. The Board observed that the information required to calculate the history of claims duration is included in the incurred and paid claims development tables but that the disclosure should be provided to reduce the burden on financial statement users, reduce any potential diversity in calculating claims duration, and increase financial statement comparability. Because the calculations are based on supplementary information included in the claims development tables, the resulting history of claims duration also is considered to be supplementary information. Some preparers expressed concern that the information disclosed, without any further discussion or explanation, may be confusing or misleading to financial statement users. The

Board observed that an insurance entity is not precluded from providing additional explanation about the information presented.

Changes in Methodologies and Assumptions

BC26. Existing guidance in Topic 944 does not prescribe a method for calculating the liability for unpaid claims and claim adjustment expenses, and insurance entities apply significant judgment when selecting the actuarial methods and assumptions used. Although Topic 250, Accounting Changes and Error Corrections, requires reporting entities to disclose information about changes in accounting principles and estimates and Topic 944 requires insurance entities to disclose reasons for changes in estimates related to insured events of prior fiscal years, the Board noted the absence of a requirement to disclose changes in actuarial methodologies and assumptions. Therefore, the Board decided that an insurance entity should 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.

BC27. The Board observed that Topic 270, Interim Reporting, requires reporting entities to disclose in interim financial statements the effects of a change in an accounting estimate. However, insurance entities' disclosures about the reasons for changes in the liability for unpaid claims and claim adjustment expenses are not consistent, and, thus, the additional requirement should significantly improve the consistency of the disclosures.

BC28. The Board considered an alternative disclosure about the range of central estimates derived from using multiple actuarial methods to calculate the liability for unpaid claims and claim adjustment expenses. The Board rejected this alternative disclosure because the objective of providing increased transparency of significant estimates made in measuring liabilities that arise from contracts issued by an insurance entity would be achieved by the disclosures described in paragraph BC26. Additionally, the Board expects that significant changes in an insurance entity's method for calculating the liability for unpaid claims and claim adjustment expenses, including changes in the selection of the actuarial methods used to calculate the liability for unpaid claims and claim adjustment expenses, will be disclosed.

Health Insurance Claims

BC29. Some financial statement preparers for health insurance entities commented that the benefits would not justify the costs of disclosing up to 10 years of information about claims development for health insurance claims because a significant portion of health insurance claims are typically settled within 1 year. The Board considered whether to exclude health insurance claims from the disclosures

about incurred and paid claims development but decided not to because some health insurance claims extend beyond one year and financial statement users have indicated that information about changes in estimates of the liability for unpaid claims and claim adjustment expenses for those claims are decision useful. Additionally, because the disclosure of claims development is required for the number of years for which claims incurred typically remain outstanding but need not exceed 10 years, including the most recent reporting period presented, the Board expects that the disclosure of claims development for health insurance claims will typically include less than 10 years of information.

BC30. The Board decided that health insurance claims should be excluded from the annual disclosure of the history of claims duration because of the very short duration of those claims and because financial statement users focus on claims development in interim periods as well as annually. The Board considered an alternative requirement to disclose the days in claims payable for health insurance claims, which would be calculated as medical claims payable divided by average healthcare expense per day in the period. The Board rejected this alternative mainly because it is an operational metric that does not provide transparent information about the incurred-but-not-reported portion of the liability for unpaid claims and claim adjustment expenses. Instead, the Board decided that the rollforward of the liability for unpaid claims and claim adjustment expenses for health insurance claims should be disaggregated (see paragraphs BC31–BC34) and that the total of incurred-but-not-reported liabilities plus expected development on reported claims for health insurance claims should be disclosed in both interim and annual financial statements, either as a separate disclosure or as a component of the rollforward of the liability for unpaid claims and claim adjustment expenses.

Presentation and Disaggregation of Disclosures

BC31. The liability for unpaid claims and claim adjustment expenses often is a composite amount arising from many insurance policies with different characteristics. This is because insurance entities that issue short-duration contracts provide coverage for events that have different frequencies and severities and, consequently, different amounts and timing of cash flows. Financial statement users explained that understanding the effects of those differences on the liability for unpaid claims and claim adjustment expenses was important to their analyses.

BC32. In light of this feedback, the Board decided that the disclosures of incurred and paid claims development tables, history of claims duration, total of incurred-but-not-reported liabilities plus expected development on reported claims, claims frequency, and the interim and annual rollforward of the liability for unpaid claims and claim adjustment expenses for health insurance claims 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). The Board's decision also requires an insurance entity to disaggregate or aggregate 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.

BC33. The Board decided that useful disaggregation of disclosures depends on the characteristics of the contracts that an insurance entity writes and on various entity-specific factors; therefore, the guidance should not prescribe any specific factor to be used as the basis for disaggregating the disclosures. Instead, the Board decided to specify a principle for providing disaggregated information. The Board noted that specifying a principle will result in useful information for financial statement users because it enables an insurance entity to disaggregate the disclosures into categories that are meaningful for its business. In addition, specifying a principle should result in disaggregation that is neither too aggregated nor too detailed. The Board also noted that an insurance entity should not aggregate amounts from different reportable segments because this would reduce the usefulness of the disclosure.

BC34. The amendments in the 2013 proposed Update would have required that disclosures be disaggregated or aggregated 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 different characteristics, and the amendments would have provided examples of disaggregation categories that would be considered appropriate. Many preparers that commented on that disaggregation requirement indicated that the guidance would result in a significant volume of disclosures, because multiple detailed levels of disaggregation would be required and the level of disaggregation would not coincide with how insurance entities manage their business. In light of this feedback, the Board decided to provide implementation guidance about how to determine the appropriate categories that an insurance entity may use to disaggregate the disclosures to provide useful information while being less burdensome to preparers.

Amounts Presented at Present Value

BC35. Topic 944 requires an insurance entity to disclose the carrying amount of claims liabilities that are presented at present value in the financial statements and the range of interest rates used to discount those liabilities. However, there is no requirement to disclose the discount deducted from the liability for unpaid claims and claim adjustment expenses and the effects of interest accretion on the statement of income. To provide better information about liabilities for unpaid claims and claim adjustment expenses that are discounted, the Board decided that for each period presented in the financial statements, an insurance entity should disclose the aggregate amount of discount relating to the time value of money deducted from the liability for unpaid claims and claim adjustment expenses, the amount of interest accretion recognized, and the line items in the statement of comprehensive income in which the interest accretion is classified.

BC36. In developing the disclosure requirements, the Board considered whether to require an insurance entity to disclose the rates that would be used to discount liabilities for unpaid claims and claim adjustment expenses that are not presented at present value in the financial statements. The purpose of the disclosure would be to provide users with management's views about the risks inherent in the liabilities and a starting point to perform independent discounting analyses. The Board ultimately rejected this disclosure for the following reasons:

- a. The other required disclosures will provide financial statement users with sufficient information about the nature of the liabilities.
- b. The disclosure of the history of claims duration will provide financial statement users with information that can be used to perform independent discounting analyses.
- c. Feedback received on the amendments in the 2013 proposed Update indicated that determining the appropriate rates to discount property and casualty insurance liabilities would be difficult because of (1) the difficulty in determining a liquidity premium and (2) the uncertainty in both the amount and the timing of claim payments. A few respondents also commented that many property and casualty insurance entities do not have sufficient expertise to calculate the appropriate yield curves without more prescriptive guidance.
- d. The benefits would not justify the costs of providing this disclosure.

Effective Date and Transition

BC37. The Board decided that an insurance entity should retrospectively apply all disclosure requirements in the amendments in this Update on a comparative basis except for those requirements that apply only to the current period. Retrospective application provides financial statement users with useful trend information across the current period and comparative periods. The Board noted that the disclosures of, and related to, incurred and paid claims development tables as of the most recent reporting period already include information for prior periods, so retrospective application for each reporting period presented would not provide any additional useful information.

BC38. The Board decided not to require an insurance entity that adopts the amendments in this Update to disclose certain information required by Topic 250. Specifically, the Board decided that providing the transition disclosures about (a) the method of applying the change, (b) a description of the indirect effects of a change in accounting principle, (c) the change in the interim period of the change, if issuing interim financial statements, and (d) the annual period of the change would not be applicable because the guidance in the amendments in this Update relates only to disclosures.

BC39. In addition, the Board decided that in the year of initial adoption of the guidance in the amendments in this Update, an insurance entity should be exempt

from disclosing more than 5 years of claims development information for a particular category if it is impracticable to obtain the information required for up to 10 years of required disclosure. The Board determined that requiring an insurance entity to go back more than five years to prepare this disclosure, which requires a significant amount of data, could be unduly burdensome. For each subsequent year following the year of initial adoption, the minimum required number of years will increase by at least 1 but need not exceed 10 years, including the most recent reporting period presented in the statement of financial position.

BC40. The Board decided that public business entities should apply the guidance in the amendments in this Update for annual periods beginning after December 15, 2015, and for interim periods within annual periods beginning after December 15, 2016. The Board delayed the interim reporting requirements to the year after the first annual period because preparers noted that they need some time to comply with the disclosure requirements, particularly with the requirement to disclose disaggregated incurred and paid claims development tables, and because auditors noted that they need some time to determine the additional procedures that need to be performed. The Board also decided that there should be a one-year delay for all other insurance entities, because feedback received on the amendments in the 2013 proposed Update indicated that other insurance entities may have limited resources and may need additional time to apply the requirements in the amendments in this Update and learn from public business entities' financial statements. Early application of the amendments in this Update is permitted.

BC41. The Board considered whether to specify different guidance for public business entities and all other entities. Ultimately, the Board decided that the disclosure requirements in the amendments in this Update should apply equally to all insurance entities on the basis that the resulting information is equally relevant to financial statement users of public business entities and other entities.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2016 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2015.