

662 | 47

Views | CrossRef citations to date | Altmetric

3

Miscellany

# On accounting standards and fair valuation of life insurance and pension liabilities

Peter Løchte Jørgensen

Pages 372-394 | Received 28 Jun 2004, Published online: 01 Sep 2006

🗨️ Cite this article   🔗 <https://doi.org/10.1080/03461230410000556>

Sample our  
Economics, Finance,  
Business & Industry Journals  
>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

📄 Full Article

📊 Figures & data

📖 References

🗨️ Citations

📊 Metrics

📄 Reprints & Permissions

Read this article

🔗 Share

## We Care About Your Privacy

We and our 878 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

I Accept

Reject All

Show Purposes

## Notes

I am grateful for the comments and suggestions of an anonymous referee, Morten Balling, Anders Grosen, Peter Hermann, Jan Bo Jakobsen, Per Linnemann, Jens Perch Nielsen, Mogens Steffensen, and Frank Thinggaard. I am particularly indebted to Søren Andersen, Michael Harboe-Jørgensen, and Charlotte Møller for fruitful discussions and for sharing their insights on the Danish market value rules and regulation. I would also like to thank Henrik Steffensen of PriceWaterhouseCoopers for granting me access to PWC's excellent Comperio database. All errors are my own responsibility.

PETER LØCHTE JØRGENSEN

Julietta, the Accountant: "Would you like to check my figures?" James Bond: "Oh, I'm sure they are perfectly rounded!"

– James Bond: The World is Not Enough, MGM/United Artists (1999).

Jørgensen PL. On accounting standards and fair valuation of life insurance and pension liabilities

As quote

This pro... ed to value  
based ac

See IAS... e Annex.

An e... ment or the  
financial... ill determine  
whether... liability.

See also

In the Ju... ices were  
allowed... n removed.



This hierarchy was first presented in the June 2002 Exposure Draft for a revised IAS 39.

Dicke ([1998](#)) mentions rare cases where secondary markets for insurance policies have existed.

See International Association of Actuaries ([2000](#)) for a deeper discussion of the possibilities for estimating fair values of liabilities when financial markets are complete and incomplete, respectively.

One challenge here is to get good bond price observations covering the far end of the maturity spectrum. Unfortunately, government bonds with maturities above 20–30 years are relatively rare in most countries. In contrast, corporate bonds with maturities up to 100 years are not uncommon. IBM, Walt Disney, ABN-AMRO, and Coca Cola are examples of large international corporations that have issued 100 year bonds (see e.g. Grinblatt & Titman ([2002](#))).

The reader is also referred to Sheldon & Smith ([2004](#)) for a general introduction to market consistent valuation of L&P products.

See e.g. Linnemann ([2003a,b](#), [2004](#)) for actuarial approaches to market based valuation of participating life insurance contracts.

The Danish L&P sector has not (yet) adopted the fair value terminology explained in [Section](#)

estimate  
“market

The figure  
exhausti

Accordin  
premi  
already  
termed a

This inte  
of the yi  
spread c  
exceede

referred to The Danish Financial Supervisory Authority ([2001](#)).



The term structure of zero-coupon interest rates tends to lie above the Danish FSA's reference rate in the long end of the maturity spectrum and below the reference rate in the short end. Casual empiricism suggests that "young" pension funds with relatively long liabilities tend to choose zero-coupon interest rates for discounting their projected cash flows, whereas mature pension funds and life insurance companies with relatively shorter liabilities tend to use the Danish FSA's reference rate. This indicates that L&P companies tend to choose the discounting methodology that minimizes the estimated value of liabilities.

Rules for sharing the investment (and insurance) surplus should follow the contribution principle and guidelines are formulated in a separate executive order issued by the Danish FSA. These guidelines have had to be revised and updated several times in connection with the issuance of the new market value reporting requirements, see The Danish Financial Supervisory Authority ([2004](#)).

Prior to 1997 the maximum allowable portfolio weight in stocks was 40%. It was raised to 50% between 1997 and 2000.

Readers familiar with the Danish language can consult The Danish Financial Supervisory Authority ([2002](#)) for illustrative numerical examples of how the values of the different entries on the balance sheet evolve in different investment scenarios under the new Danish market value regulation.

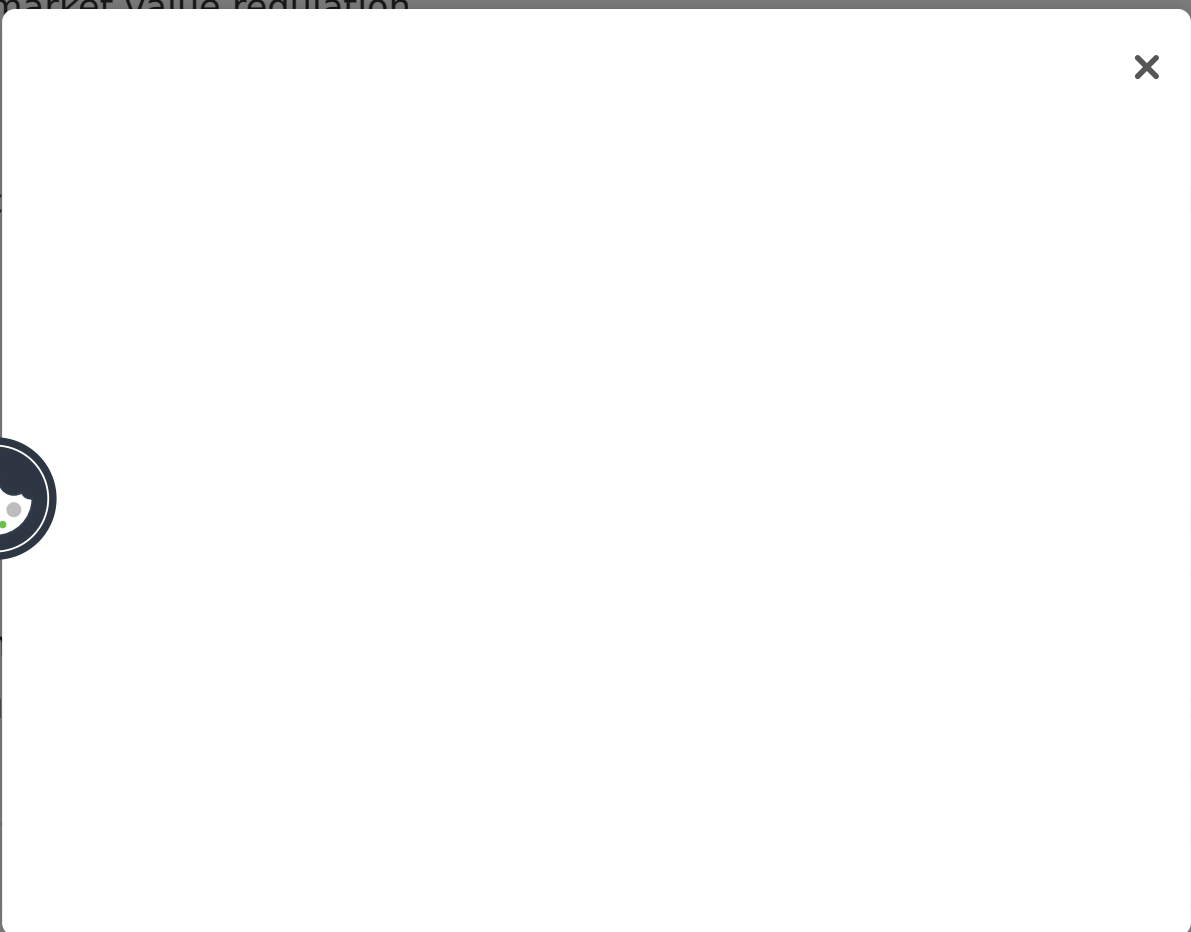
See e.g.

French c  
see The

See e.g.

This v  
high  
equities  
between  
subsequ  
attitude  
timing o  
burst of  
Nicholson ([2004](#)).

ism recently,  
ular and  
fund from  
match  
Ralfe,  
controversial  
ally fine  
sequent  
[2001](#)) and



See Mercer Oliver Wyman ([2004](#)) and The Economist ([2004a](#)).

See The Economist ([2004b](#)) and Watson-Wyatt ([2003](#)).

#### Related Research Data

##### Surplus-linked life insurance


Source: Informa UK Limited

A market-consistent framework for the fair evaluation of insurance contracts under Solvency II

Source: Springer

Life insurer performance under the bailout of distressed asset purchases

Source: Informa UK Limited

Linking provided by  ScholarSplorer

## Related research

People also read

Recommended articles

Cited by  
47



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright

Accessib

Registered  
5 Howick Pl

or & Francis Group  
orma business

