Scandinavian Actuarial Journal ›
Volume 2004, 2004 - Issue 5

638 Views | 47 CrossRef citations to date | 3 Altmetric

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

Abstract

The actuarial profession is increasingly teaming up with financial economists for a fruitful cooperation on the proper valuation of life insurance and pension (L&P) liabilities. This has been a natural consequence of a recent sharply increased focus on market values in financial reports of L&P companies from regulators, standard setters, the financial press, stakeholders, and others with an interest in the L&P business.

This arti ments in relation rds and the backgro ed. We then revie appropriate techi e definition of the co nt and quite innovati Danish market f

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All
Essential Only
Settings

Keywords: Accounting standards fair value financial valuation regulation

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. Scand. Actuarial J. 2004; 5:372–394.

As quoted by Malkiel (1996).

This process is sometimes referred to as a transition from transactions based to value based accounting.

See IAS Committee Foundation (2002) in particular Part A, Sec. 2(a), and the Annex.

An exam ment or the financial ill determine whether iability.

See

In the Ju ices were allowed n removed.

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Onl

Settings

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 3. Values of liabilities for which there is no active market and thus have to be estimated (using for example financial modeling techniques) are also referred to as “market values”, and the remainder of this section therefore uses this term.

The figures list the most significant liability side entries, but the lists are not exhaustive.

According to Danish insurance legislation, policy holders can terminate the payment of premium s that have already way is termed

This ed average of the yi ded(!). This spread c have exceede e reader is referred to The Danish Financial Supervisory Authority (2001).

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

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. The Danish Financial Supervisory Authority (2002).

French critics in particular seem to have had some success with their lobbyism recently, see The Economist (2003).

See e.g. Dimson, Marsh, & Staunton (2002).

This vie ular and
highly p t fund from
equities match
betwe Ralfe,
subs controversial
attitude ally fine
timing o equent
burst of 001) and
Nicholson (2004).

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

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

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

Related research

People also read | Recommended articles | Cited by 47

Fair dynamic valuation of insurance liabilities: a loss averse convex hedging approach

Ze Chen et al.
Scandinavian Actuarial Journal
Published online: 24 Apr 2020

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

Information for

Authors
R&D professionals
Editors
Librarians
Societies

Open access

Overview
Open journals
Open Select
Dove Medical Press
F1000Research

Opportunities

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

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 © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions Accessibility

Taylor & Francis Group
an informa business

Registered in England & Wales No. 3099067
5 Howick Place | London | SW1P 1WG

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings