



NEWS RELEASE

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INTERNATIONAL ACCOUNTING STANDARD FOR LIFE INSURANCE PRESENTED BY PARTNERSHIP OF U.S. AND JAPANESE LIFE INSURERS

Set of Principles and Guidance to be Considered by IASB

NEW YORK, April 19 – An international accounting standard for life insurance jointly developed by the leading life insurance companies in the United States and Japan has been submitted for consideration by the International Accounting Standards Board (IASB)

The 16 principles and guidance set forth in a new paper, “An International Accounting Standard for Life Insurance,” were endorsed by the Board of Directors of the Group of North American Insurance Enterprises (GNAIE) and the executive officers of the four largest life insurance companies in Japan.

GNAIE is the only trade association that focuses exclusively on financial reporting and accounting issues. The combination of U.S. and Japanese life insurance companies represents more than 50 percent of the world’s life insurance markets. The principles are an extension of an earlier draft submitted to the IASB last year.

The paper focuses on the measurement of life insurance, annuities and certain types of health insurance for general purpose reporting; it does not include solvency regulation.

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To influence the development of international accounting standards to ensure that they result in robust, high quality standards for insurance enterprises



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Almost all life insurance and annuity contracts that qualify as insurance are included under these principles, as well as long term care insurance, disability insurance and other types of non-cancelable or guaranteed renewable health insurance contracts issued by either a life or non-life company.

- Principle 1: The Net Insurance Liability (or Liability”) should be based on the present value of all future cash flows associated with the portfolio of insurance contracts being valued.
- Principle 2: The Net Insurance Liability at all times must be sufficient to provide for payment of all expected future obligations with adequate provision for risk and uncertainty.
- Principle 3: Profit should be recognized in line with the release from risk.
- Principle 4: On initial issue there should be no accounting gain or loss.
- Principle 5: A policyholder intangible (or Deferred Acquisition Cost) asset should be established when a policy (or block of policies) is issued and amortized over time into earnings in line with the policy’s profit profile.
- Principle 6: Insurance liabilities should reflect the inherent risk and uncertainty of future cash flows.
- Principle 7: Assumptions underlying the measurement of insurance liabilities and intangible assets should be periodically reviewed and changed, if appropriate.
- Principle 8: Liabilities should reflect the value of all financial options and guarantees.
- Principle 9: Measurement should be based on a portfolio of exposures.
- Principle 10: Policyholder behavior should be reflected in the measurement of all liabilities.
- Principle 11: Renewal options or provisions that obligate the insurer to continue to provide coverages should be recognized to the extent they are included in the contract or required by law or regulation.
- Principle 12: The credit standing of an entity should not be considered in the valuation of insurance liabilities.
- Principle 13: Entities should have the ability to measure assets and liabilities on a consistent basis to reflect the way companies manage risk.



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- Principle 14: Liabilities supported by a separate account, a unit-linked fund or a similar dedicated portfolio should reflect the expected returns on that portfolio.
- Principle 15: Liabilities for participating contracts must include provision for the expected payout of policyholder dividends, additional benefits provided or any other result of the participating mechanism.
- Principle 16: Insurance policies with flexible premiums should only be unbundled in the event that the separation would result in material differences in the overall value of the contract and either
 - a) The deposit and insurance components of the contract are separately priced and separately managed by the insurer; or
 - b) Separate measurement of a deposit component is necessary to recognize rights and obligations of the insurer and the policyholder.

The accounting guidance does not give detailed guidance for establishing either the assumptions or margins used to calculate insurance liabilities. The groups believe that the IASB should not focus on setting technical rules for this. The paper also does not deal with the special characteristics of reinsurance contracts.

Richard J. Carbone, chairman of GNAIE, said “The joint effort by U.S. insurers and the Japanese life insurance industry has a common objective: the creation of international accounting standards that create more efficient global capital markets and also reflect the business model and unique features of insurance contracts.” Carbone is chief financial officer of Prudential Financial, Inc.

Koji Hanaoka, managing director, Sumitomo Life Insurance Company, said that “The set of principles and guidance for an international accounting standard for life insurance developed by this partnership of nations is a valuable contribution to achieving the ultimate goal of international convergence to a set of high quality accounting standards for insurers worldwide.”

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The member companies of GNAIE are: ACE Ltd.; AIG, Inc.; The Allstate Corporation; GE Insurance Solutions; General Reinsurance; Genworth Financial, Inc; The Hartford; Metropolitan Life Insurance Company; New York Life Insurance Company; Prudential Financial, Inc.; and XL Capital, Ltd. The executive officers of the Japanese life insurance companies are: Takao Arai, executive vice president, Nippon Life Insurance Company; Kazuma Ishii, managing executive officer, Dai-Ichi Life Insurance Company; Hiroaki Tonooka, managing director, Meiji Yasuda Life Insurance Company; and Koji Hanaoka, managing director, Sumitomo Life Insurance Company.

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