

AN ALERT FROM THE BDO INSURANCE INDUSTRY PRACTICE

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FASB'S ASU 2015-09 ENHANCES DISCLOSURES ABOUT SHORT-DURATION INSURANCE CONTRACTS

By Phillip Hyatt

In late 2015, the FASB issued an accounting standards update (ASU) to enhance disclosures for short-duration insurance contracts. The ASU is intended to increase transparency regarding significant estimates made in measuring liabilities for unpaid claims and claim adjustment expenses. It does not otherwise change the accounting for short-duration insurance contracts. For calendar year-end public and private companies, the new standard took effect in 2016 and 2017, respectively. The full accounting update is available [here](#).

BACKGROUND

ASU 2015-09 enhances the disclosure requirements for short-duration insurance contracts (most property, liability and short-term health contracts) issued by insurers. These new disclosures do not apply to entities other than insurance entities.

The purpose of the required disclosures is to provide financial statement users with more transparent information about an insurance entity's liability for unpaid claims and claim adjustment expenses, subsequent adjustments to those estimates, methodologies and judgments in estimating claims, as well as the timing, frequency and severity of claims. Such disclosures should enable users to understand the insurance entity's ability to underwrite and anticipate costs associated with claims.



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MAIN PROVISIONS

Under the new standards, an insurance entity must disclose the following information about the liability for unpaid claims and claim adjustment expenses, an example of which is provided as implementation guidance:

- ▶ 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 (not to exceed 10 years, including the most recent balance sheet presented). Each period presented in the disclosure about claims development that precedes the current reporting period is considered to be supplementary (unaudited) information.
- ▶ 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 balance sheet.
- ▶ 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.
- ▶ 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.
- ▶ For each accident year presented of incurred claims development information, the average annual percentage payout of incurred claims by age (claims duration) for all claims (except health insurance claims).

Insurers should aggregate or disaggregate the disclosures above to provide meaningful information to users. In doing so, insurers should consider how their liabilities for unpaid claims and claim adjustment expenses have been presented for other purposes,

such as earnings releases, annual or statutory reports, and information looked at by the chief operating decision maker.

Any significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses should be disclosed, along with the reasons for the change and effects of those changes on the financial statements. Additionally, the roll forward of the liability for unpaid claims and claim adjustment expenses that is required annually under current guidance will now be required in both annual and interim reporting periods.

There are additional disclosures required about liabilities for unpaid claims and claim adjustment expenses reported at present value. Those disclosures include: the aggregate amount of discount deducted to derive at the liability for unpaid claims and claim adjustment expenses for each balance sheet presented, the amount of interest accretion recognized for each period of income statement presented, and the income statement line item that includes interest accretion.

EFFECTIVE DATE AND TRANSITION

The amendments were effective for public business entities for annual reporting periods beginning after December 15, 2015 (i.e. year end 2016 for calendar year end entities) and interim reporting periods within annual periods beginning after December 15, 2016.

The amendments were effective for all other entities for annual reporting periods beginning after December 15, 2016 and interim reporting periods within annual periods beginning after December 15, 2017.

Upon transition, the claims development table need not exceed five years if presenting previous years' information is considered impracticable. An additional year is added to the disclosure each subsequent year up to ten years.

This piece provides updates to BDO's original Assurance Practice alert published in June 2015. You can read the original alert [here](#).



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