What Is Topic 944?

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In May 2015 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-09, which concluded the FASB's revision of the U.S. GAAP standards for short-duration contracts. ASU No. 2015-09 focuses on improving existing disclosure requirements to all insurance entities that issue short-duration contracts as defined in FASB Accounting Standards Codification (ASC) Topic 944, Financial Services – Insurance (Topic 944). The FASB chose to improve the disclosure requirements for short-duration contracts, instead of revising the short-duration insurance contract accounting model all together. In May 2015 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-09, which concluded the FASB's revision of the U.S. GAAP standards for short-duration contracts. ASU No. 2015-09 focuses on improving existing disclosure requirements to all insurance entities that issue short-duration contracts as defined in FASB Accounting Standards Codification (ASC) Topic 944, Financial Services – Insurance (Topic 944). The FASB chose to improve the disclosure requirements for short-duration contracts, instead of revising the short-duration insurance contract accounting model all together.

Why is Topic 944 important?

Preparers of financial statements need to be aware of the additional disclosure requirements introduced by ASU No. 2015-09, as well as consider the time impact and increased level of detail on reserving and claims data to be compiled in order to enable preparation of financial statements that comply with accounting principles generally accepted in the United States of America (U.S. GAAP).

When do the amendments become effective?

These new disclosure requirements are effective for annual periods beginning after December 15, 2015 for public insurance entities and for annual periods beginning after December 15, 2016 for all other insurance entities. All disclosure requirements should be applied retrospectively to comparative periods, except for those requirements which apply to the current accounting period only.

Who does it apply to?

ASU No. 2015-09 applies to all insurance entities that issue short-duration contracts. The ASU does not apply to holders of short-duration contracts.

What is a short duration contract?

Attributes of a short-duration contract are:

1. The contract provides insurance protection for a fixed period of short duration.
2. The contract enables the insurer to cancel the contract or to adjust the provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided.

Most captives in Cayman issue insurance contracts that are considered to be short-duration contracts as defined in Topic 944. An annual medical professional liability insurance policy issued by a captive is a typical example of a short-duration contract.

What has changed?

The main improvements on the existing disclosures provides increased transparency of significant estimates in measuring the liabilities for unpaid claims and claims expenses and provides additional information to analyse the amount, timing and uncertainty of cash flows from insurance contracts and development of claims estimates.

What does this mean?

The following information about the liability for unpaid claims and claim adjustment expenses are required to be disclosed:

1. Incurred and paid claims development information by accident year (as defined in Topic 944 is the year in which a covered event (as defined by the terms of the contract) occurs), 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 statement of financial position presented). 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 (1), (3) and (4) above.economics

Consideration will need to be given by captive managers to put procedures in place in order to gather the data needed to meet the requirements.

In Conclusion

The disclosures required should be aggregated or disaggregated based on the information deemed useful to readers of the financial statements.

Significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses including the reason for the change and effect on the financial statements should also be disclosed.

Additionally, liabilities for unpaid claims and claim adjustment expenses reported at present value requires disclosures of the following: the aggregate amount of discount deducted to derive the liability for unpaid claims and claim adjustment expenses, the interest accretion recognized for each period in the statement of income, and, the line item in the statement of income where the interest accretion is classified.

In the first period of application, the claims development table need not exceed five years if presenting previous years information. Additional years are added to the disclosures until it reaches the ten year maximum requirement.

With the enhanced level of disclosure required by Topic 944, consideration will need to be given by captive managers to put procedures in place to gather the data needed to meet the requirements set out by the new standard. The captive managers with the help of the actuary and claims handler should start compiling the required data for the new disclosure requirements well ahead of the effective reporting date to avoid any potential delays in implementing the revised guidance.

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