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Actuary Connect
COMMUNICATIONS BY ACTUARIES FOR ACTUARIES

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THE ADOPTION OF IFRS CREATES NEW OPPORTUNITIES AND CHALLENGES

The pending changes to actuarial valuation practices, accounting, solvency and regulatory frameworks that insurance companies face bring many new opportunities for actuaries.

One newsworthy change is the proposed adoption of International Financial Reporting Standards (IFRS) for U.S. companies. The IFRS are a set of global accounting standards written by the International Accounting Standards Board (IASB) and are used by over 100 countries worldwide as the primary basis of financial reporting for publicly traded companies. The objective of the IASB is to develop a single set of high quality, understandable financial reporting standards that can be used by companies around the world.

At this stage, it is still unclear if and when U.S. domestic companies will be required to adopt IFRS. The U.S. Securities Exchange Commission (SEC) released an “IFRS Roadmap” last fall that outlined a plan that could see U.S. companies adopting IFRS by 2014, with early adoption permitted in limited circumstances. The SEC is in the process of evaluating over 230 different comment letters on this proposal before making any final decisions. Views regarding the timing and necessity of adopting IFRS as a replacement of U.S. GAAP were mixed, with 56% of financial companies supporting the proposals.

For life insurance companies in the U.S., the adoption of IFRS poses many new challenges. For starters, the rules for how to measure and value insurance contracts under IFRS are still under joint development by the IASB and FASB in the U.S. The insurance standard is not expected to be finalized until 2012 at the earliest. In the meantime, until the insurance standard has been decided, U.S. companies that are currently applying IFRS will retain their existing local accounting policies for measuring insurance, U.S. GAAP.

What does this mean for Actuaries? Actuaries are playing a critical role in the development and implementation of the new accounting principles for insurance contracts. An actuary’s understanding of the components and risks inherent in insurance products is fundamental to ensuring that the proposed valuation methodologies under IFRS will result in a meaningful framework that will be useful and relevant to users of financial statements. Also, a strong actuarial team will be required to help implement these standards once they do become finalized.

Manulife Financial, the parent company to John Hancock, will be required to adopt IFRS beginning in 2011 along with all other public Canadian companies as a replacement of Canadian GAAP. Actuaries at John Hancock are uniquely situated to be ahead of the curve with the new valuation and accounting standards as they will be required to adopt IFRS ahead of most other U.S. companies.

Contribution from Tim Deacon, CA, CPA
Vice President, International Accounting and Policy, Manulife Financial

CAREER BUZZ

Actuaries play a central role in all of our businesses at John Hancock. We take the professional development of our actuaries very seriously, and they hold a variety of important roles within our organization. Actuaries can work in their area of interest, ranging from positions as financial actuaries to pricing actuaries to actuaries interested in general management. They are found in departments including life insurance, long term care, wealth management and reinsurance. Many actuaries hold senior officer positions throughout the organization. John Hancock’s success as a financial service provider depends on the actuarial areas to assure the financial stability of the company.

SPOTLIGHT CAREER OPPORTUNITIES

AVP, US Finance - Reinsurance

To view all actuarial opportunities, visit johnhancock.com/careers

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NOTES FROM SENIOR MANAGEMENT

Actuary Connect interviewed Lynne Patterson, FSA, FCIA. Lynne serves as Senior Vice President and Chief Financial Officer for John Hancock and has been in this role since 2007. She is responsible for the financial management and control of John Hancock and for general oversight and coordination of the chief financial officers of all U.S. Division product lines. Lynne joined Manulife, John Hancock's parent company, in 1998 as Chief Financial Officer of the Reinsurance Division and also has served as Senior Vice President of Corporate Risk Management at Manulife's corporate offices.

What is John Hancock doing to prepare for the adoption of IFRS?

John Hancock is participating in our parent company's global initiative to prepare for the adoption of IFRS in 2011, which is required of all Canadian public companies. This important initiative requires the involvement of actuarial, accounting, investment, tax, systems and risk management professionals from all parts of the worldwide operations of Manulife Financial. At John Hancock, we need to modify our financial systems, processes and controls, as well as our business strategies, to ensure we're ready for IFRS in 2011.

What unique roles will John Hancock's actuaries play in the development and implementation of IFRS?

Collaborating with actuaries throughout the Manulife Financial group, actuaries at John Hancock have the opportunity to influence the implementation of these new accounting principles at our company. Particularly with respect to the new standards for insurance contracts, which are not expected to be finalized until 2012 at the earliest, actuaries will play a critical role in assisting others in understanding the impact of IFRS in areas ranging from expected earnings emergence to earnings volatility and capital management. Determining the impact of IFRS on our business strategies, including the design of our products and our investment strategy, are other areas where actuaries will be heavily relied upon and are uniquely qualified to lend expertise.

What advantages will these new skills provide to John Hancock's actuaries?

Continuous learning is one of the many attractions for individuals who have chosen an actuarial career. Actuaries at John Hancock have expertise in valuing the actuarial liabilities on our balance sheets under the four different bases of accounting that we use in our financial reporting today: Canadian GAAP, U.S. GAAP and U.S. statutory and tax bases. Expanding their knowledge base to gain expertise in another basis of accounting will only increase the value that actuaries provide to our organization and the contribution they make to the sound financial management of our company.

What impact do you think these new standards could have on the actuarial profession?

The principle-based approach offers the actuarial profession the opportunity to get involved both locally and internationally in developing standards and guidance. Actuarial professional organizations will need to work closely together, or form an international actuarial body whose responsibility it is, to oversee and coordinate the development of standards and guidance to assist actuaries worldwide in interpreting the IFRS literature. One of the key goals of adopting IFRS is to provide a level playing field and common ground for financial statements, so without this guidance, a wide range of actuarial practices will potentially result.

There also is opportunity for actuaries to become increasingly involved in the greater context of financial reporting standards interpretation and development, not just from a strict actuarial perspective, but also from an overall business management and strategic standpoint. For those more familiar with the current U.S. GAAP framework, the new IFRS accounting framework for insurance contracts will likely result in a shift in focus of actuarial valuation from a more historical-based approach to a more risk-based framework that incorporates current market based assumptions.

Do you have any advice to actuaries on how to approach these new standards?

Embrace the implementation of IFRS with an inquiring mind. Look for opportunities to contribute to the development of the IASB's insurance contract valuation standards, and educate others in your company about the impact of this very significant step towards having a consistent international framework for accounting standards and solvency regulation.