

Economic Measurement of Insurance Liabilities: The Risk and Capital Perspective

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Abstract

Insurance company financial reporting and performance measurement are going through a significant transformation. Insurers are beginning to look at their business based on what many refer to as the “economic value framework.” This paper examines some of the recent changes in financial reporting for insurance contracts and then explores whether sufficient evidence exists to conclude whether a company has created value simply by the sale of an insurance contract (gain at issue), and also reviews the necessary disclosures needed to build market trust of “next-generation” financial reporting. Specific issues related to the economic view of capital also are examined as well as some of the problems existing economic capital approaches present to the industry. This paper proposes a performance measurement approach that incorporates the market’s view of risk and the level of compensation the market demands to accept that risk.