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Market Reporting

Getting your message across to create value

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Agenda

Introduction

Where are we now?

What does good look like now?

… and in the future

What should we be doing now?

What are we here to discuss?

The future of life insurance?

The future of life insurers?

How to spin the message?

What are we here to discuss?

What are we here to discuss?

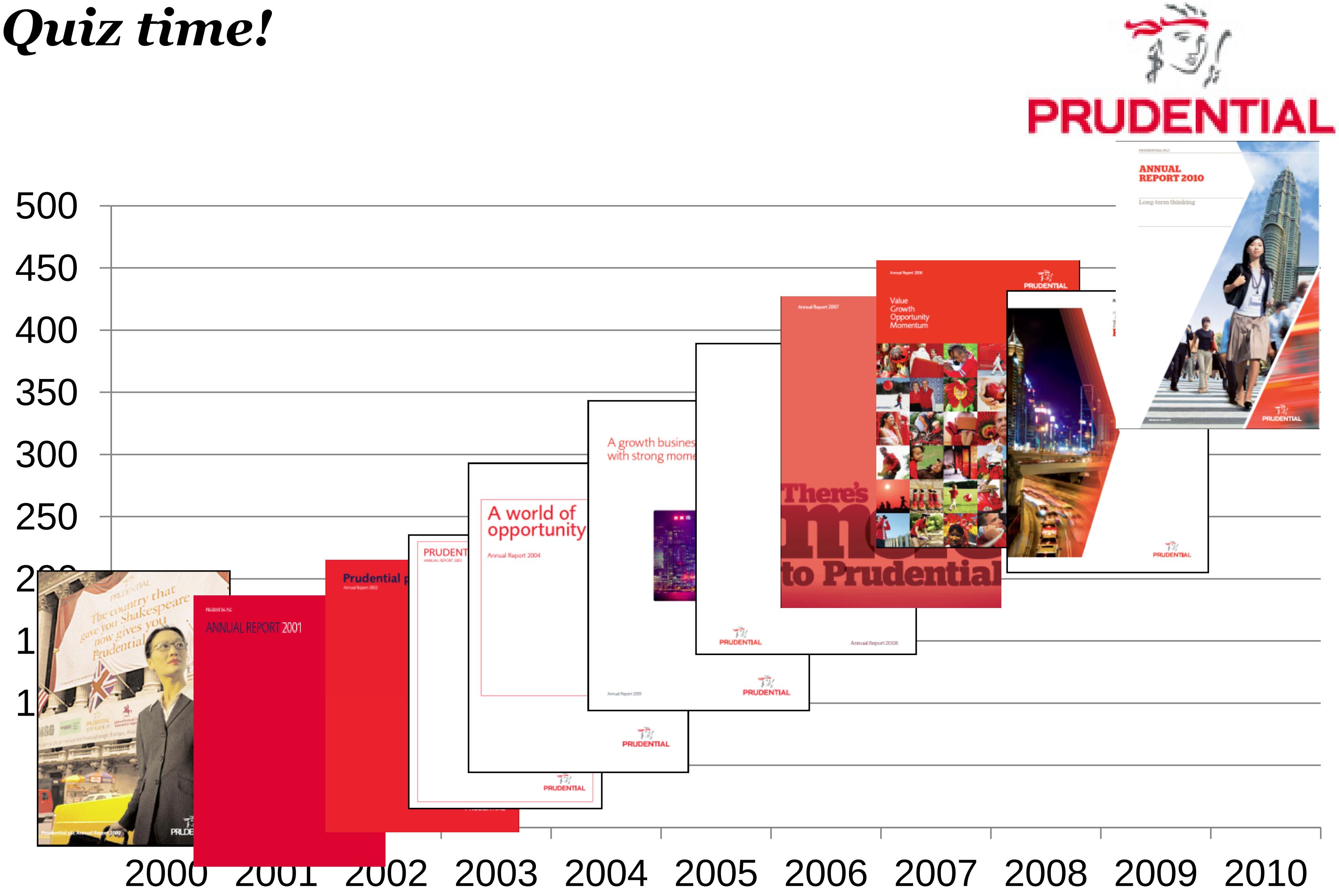
- How companies can identify, understand and communicate the value of their businesses (underpinned by streamlined, timely and robust financial, actuarial and risk based data and processes).
- Getting this right will give insight on
  - Products, pricing, capital allocation
  - Risk v reward balance
  - Business performance & sustainability

The future of a life insurer?

Where are we now?

Share prices	1	Sector un-investible?
Market Value / Embedded Value	2	Is (MC)EV credible?
New business IRRs	3	Any credit for NB?
Solvency II	4	What capital is required?
Dividend yields	5	Dividends sustainable?

Quiz time!


PRUDENTIAL
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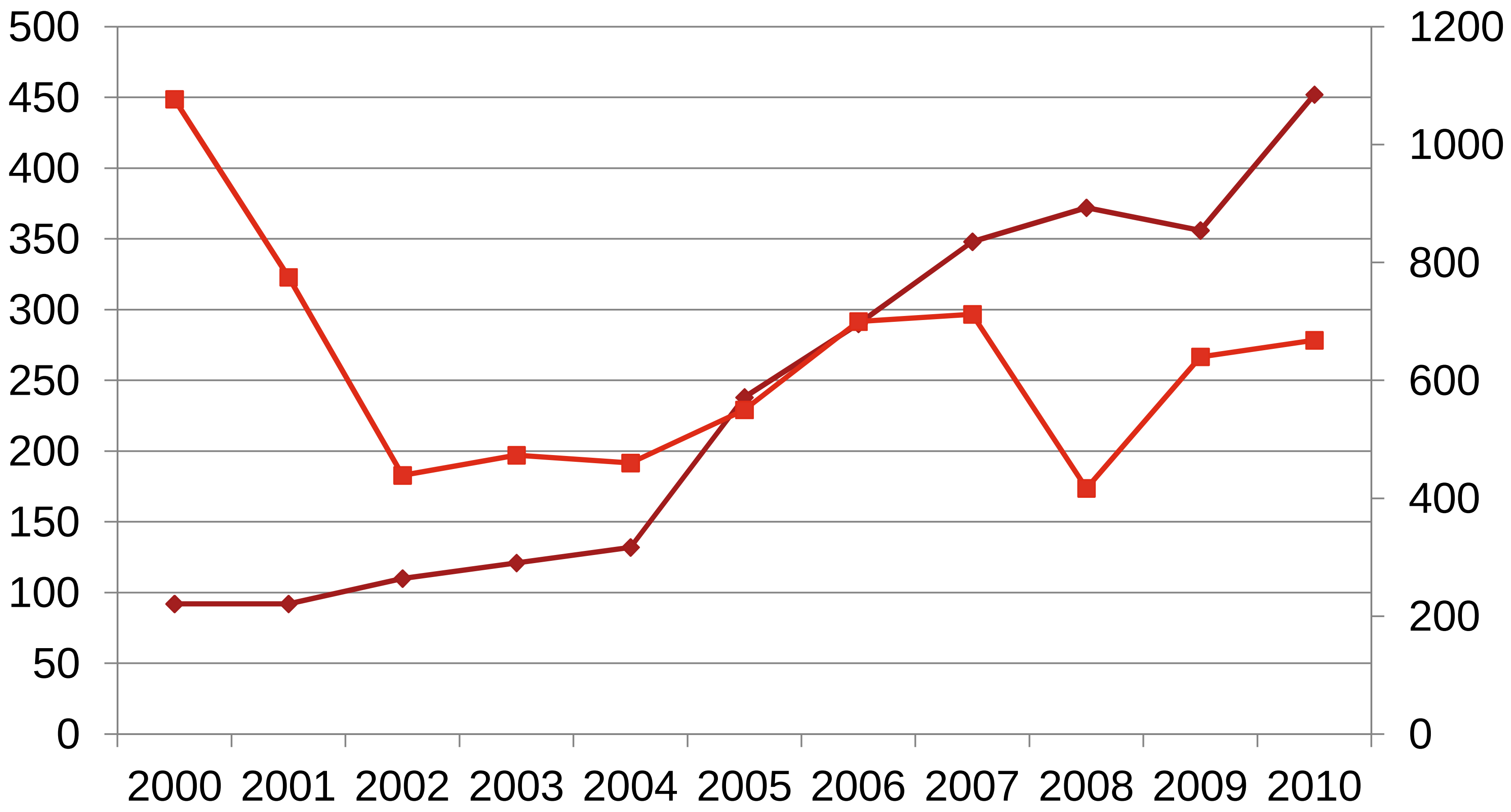
A world of opportunity
There's more to Prudential
Value
Growth
Opportunity
Momentum
ANNUAL REPORT 2010

Annual report pages v share price



What are investors really interested in?

Investors are looking for financial information that is:

- Consistently prepared (across years and between companies)
- Aligned with how the business is steered, how performance is assessed internally, and how risks are judged
- Capable of demonstrating how the company creates value, and for holding management accountable
- Sufficiently granular, disaggregating the performance of segments with different risks and drivers
- Model-able

What are we doing now?

Strategic repositioning

Why should you invest in us?

Resulting in :

- New market / product segmentation
- New financial targets
- Divestment
- Changing capital allocation
- A focus on efficiency (cost reduction)
- The start of a new "track record"

Tactical "Quick Fixes"

Responding to "Analyst needs"

Resulting in :

- Some encouraging developments, particularly with respect to the UK insurers
- More volume (not all of it useful)
- A lack of clarity on the interaction with other data (does this give the same message)
- Not enough detail (spreadsheet built at group? => no drill down or history)
- A lack of clarity on what is important (what do you run the business on?)
- Even less 'joined-up' reporting

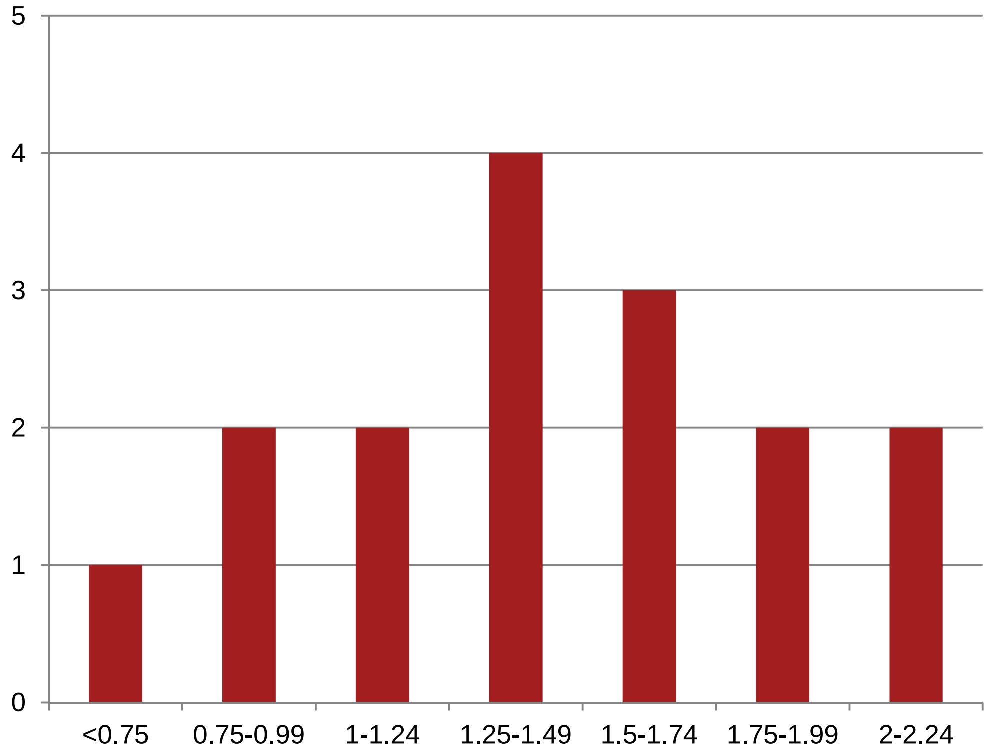
What are we doing now?

Is IFRS I good enough?	•Analysts understand it & it's audited & it's used as a valuation metric •Operating profits being headlined - "Below the line" getting blurred
Is Embedded Value dead?	•MCEV, EEV – liquidity premiums adding confusion (esp in UK & US) •Will we need it post Solvency II?
A focus on Free Cash Generation	•Seen as a proxy for dividend capacity (rightly or wrongly) •Not consistent across companies and questions over "how embedded?"
A focus on leverage	•Volatility from concerns over operating and financial leverage •What is left for shareholders?
Attempts to link the metrics & underlying drivers	•IFRS profit drivers now in fashion •Still a lack of clarity on how the numbers relate to one another
Capital quality	•Fungibility and liquidity getting regulatory focus •Solvency II driving structuring activity
Responding to "crises"	•Credit exposures •Sovereign debt

Our analysis highlights the problems

- We score the leading insurers on a rating of 0-3 in 8 key reporting areas
- 0 means doing nothing; 3 means producing good quantitative disclosures
- No insurer scored an average of >2.5
- …with 3 scoring <1
- Main problem areas were life IFRS margin analysis, new business metrics and capital disclosures

Number of insurers by scoring 'band'…



Building Public Trust survey reinforces the point

Survey of the narrative reporting practices in the FTSE 350

(2010/11)

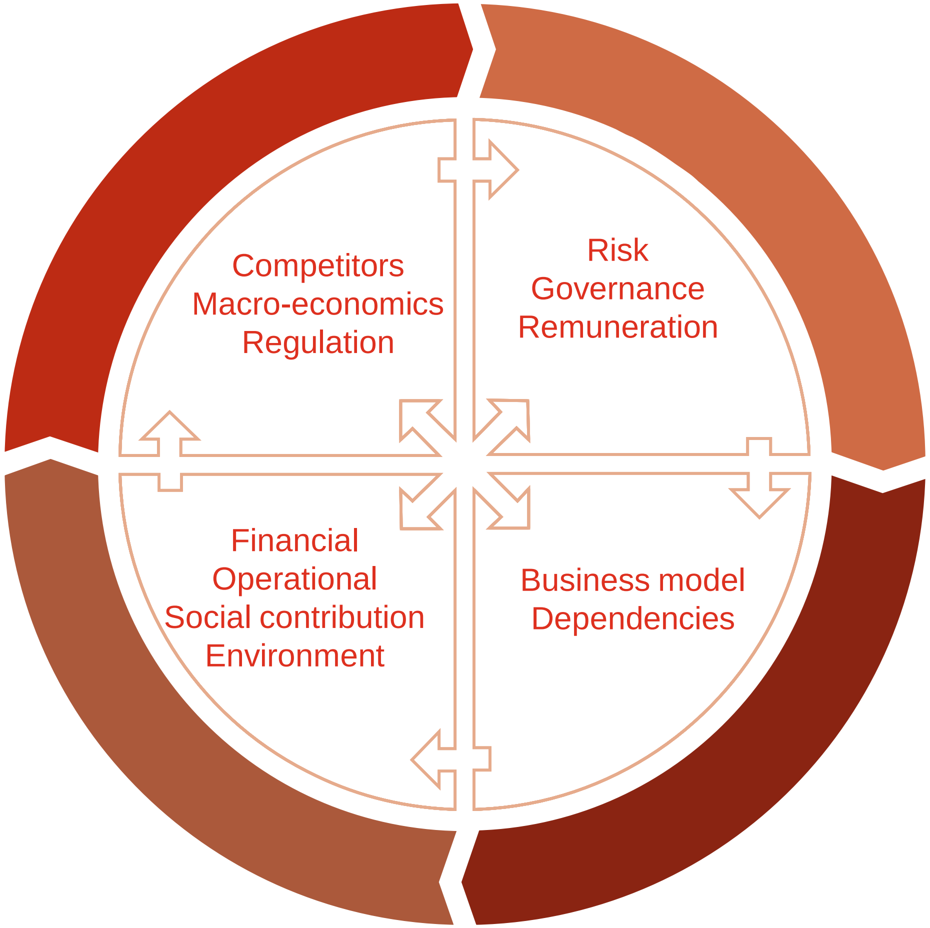
Reporting framework category	What's clear in reporting	What's not clear
Market context	84% talk about the future	25% explain what it means
Strategy	94% include strategic priorities	16% base reporting on strategy
Risks	95% explain nature/mitigation of risk	13% discuss dynamics of risk profile
Business operations	68% use the term business model	20% clearly explain their business model
Performance	93% explicitly identify KPIs	35% align KPIs to strategy
Fundamentals	78% report non-GAAP measures	27% clearly explain underlying revenue drivers
Sustainability	74% give sustainability-related KPIs	15% link sustainability to strategy
Segments	92% have narrative consistent with segment notes	7% report across framework by segment

What does good look like

Integrated reporting


TOWARDS INTEGRATED REPORTING
Communicating Value in the 21st Century

DISCUSSION PAPER
DRAFT: NOT FOR CIRCULATION
27 AUGUST 2011
INTEGRATED REPORTING <IR>



What does good look like?

Providing strategic context

AstraZeneca

What drives the growth of our business?

See Our marketplace section from page 10.

1 Expanding patient populations

2 Unmet medical need

3 Advances in science and technology

What challenges do we face?

See Our marketplace section from page 10.

- Pricing pressure
- R&D productivity
- Tougher regulatory environment
- Generic competition and patent expiry

What do we want to achieve?

See Our strategic priorities to 2014 section on page 15.

Our KPIs

See Performance in 2010 section on page 18.

What do we want to achieve?	Our KPIs
Financial Sustain annual revenues of \$28-\$34 billion Sustain Core pre-R&D operating margins of 48%-54% Reinvest 40%-50% of pre-R&D post-tax cash flows in R&D and capital investments Achieve target return on invested capital	> Revenue > Core pre-R&D operating profit/margin > Core EPS > Reinvestment rate > Cash flow
Pipeline Average of two or more commercially valuable first approvals in major markets per year 40% of our pipeline sourced from outside our laboratories	> Product approvals > Regulatory submissions > Phase III investment decisions > Licensing deals/acquisitions
Deliver the business Grow market share of key brands that retain exclusivity Successfully commercialise recent launches and the next wave Sustain double digit sales growth in Emerging Markets	> Market share of key brands > Revenue from new product launches > Emerging Market sales growth
Business shape Maintain gross margin in excess of 80% Improve Sales and Marketing effectiveness and efficiency Procurement savings across all functions Focus on working capital management	> Gross margin > SG&A costs > R&D cost efficiency > Procurement savings
People and values Achieve global high performing norm rating for employee engagement Achieve a step change in our leadership and management capability Ensure a culture of ethics and integrity is embedded in all business practices	> Employee engagement > Leadership communications > DJSI ranking > Sales and marketing breaches

What might stop us from achieving our objectives

See Risk section from page 94.

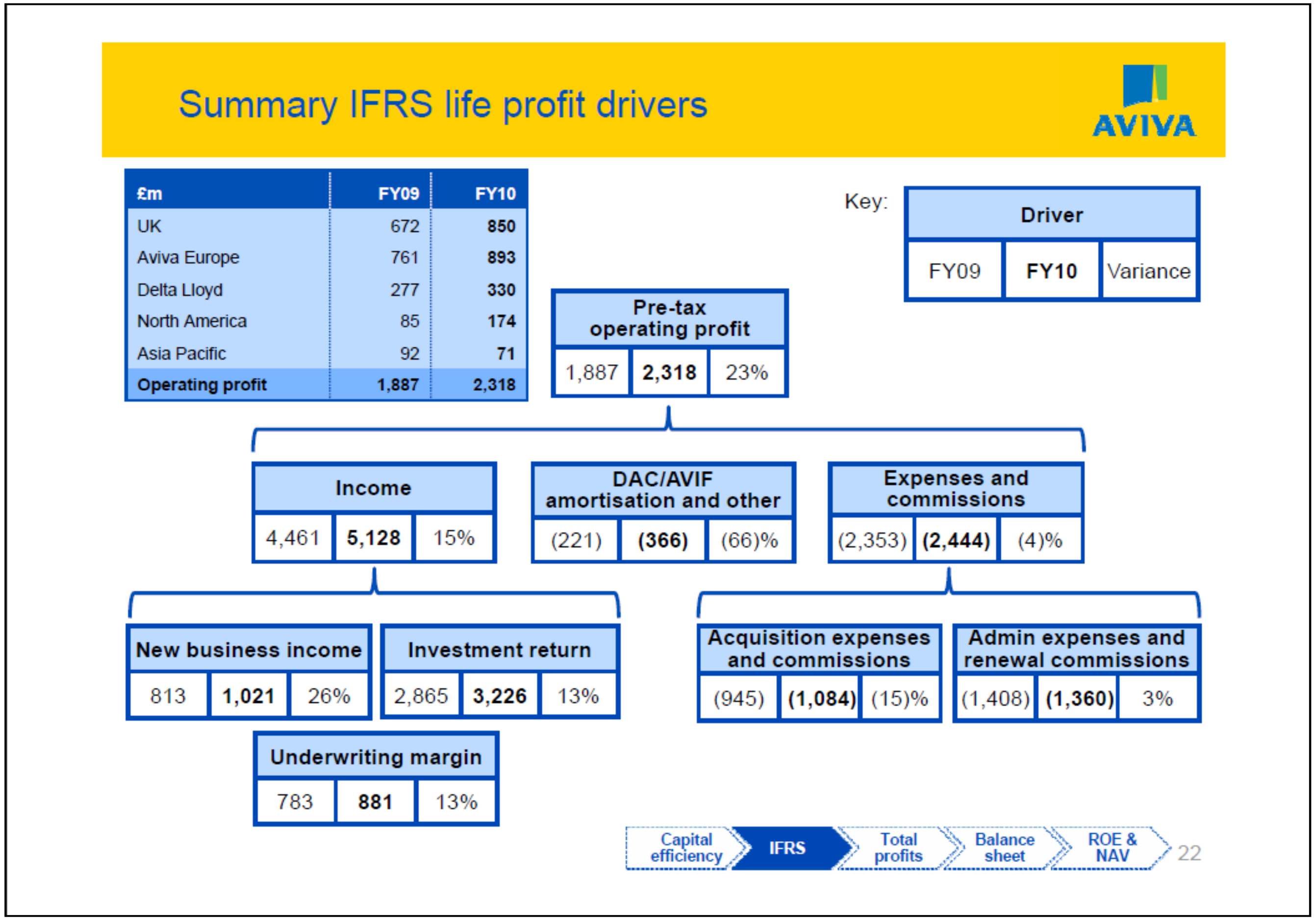
We face a diverse range of risks and uncertainties that may adversely affect any one or more parts of our business. Our approach to risk management is designed to encourage clear decision making as to which risks we take as a business and how we manage those risks in each case informed by an understanding of the commercial, financial, compliance, legal and reputational implications of these risks.

What does good look like?

Creating a clear narrative flow

Man Group

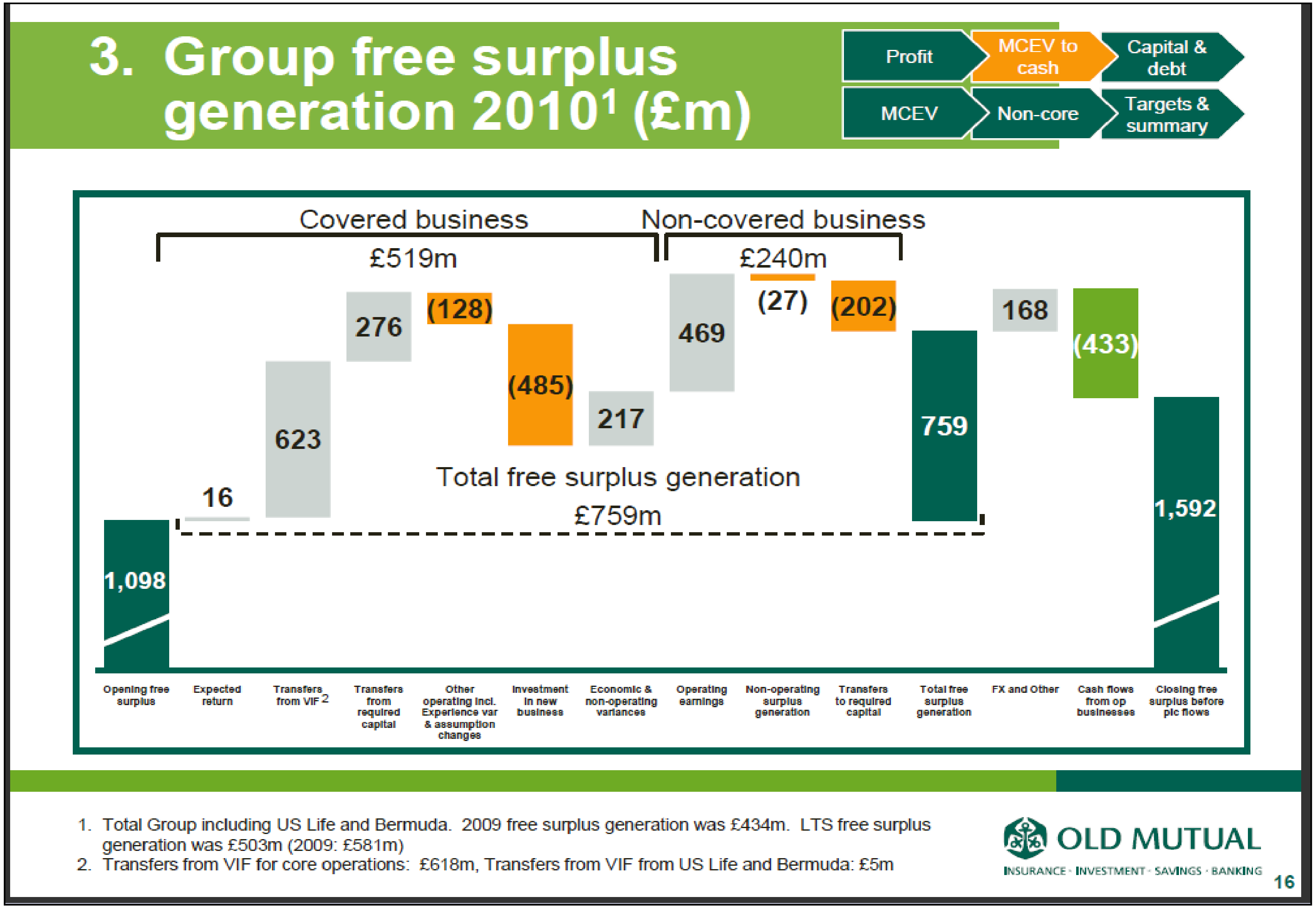
What does good look like?



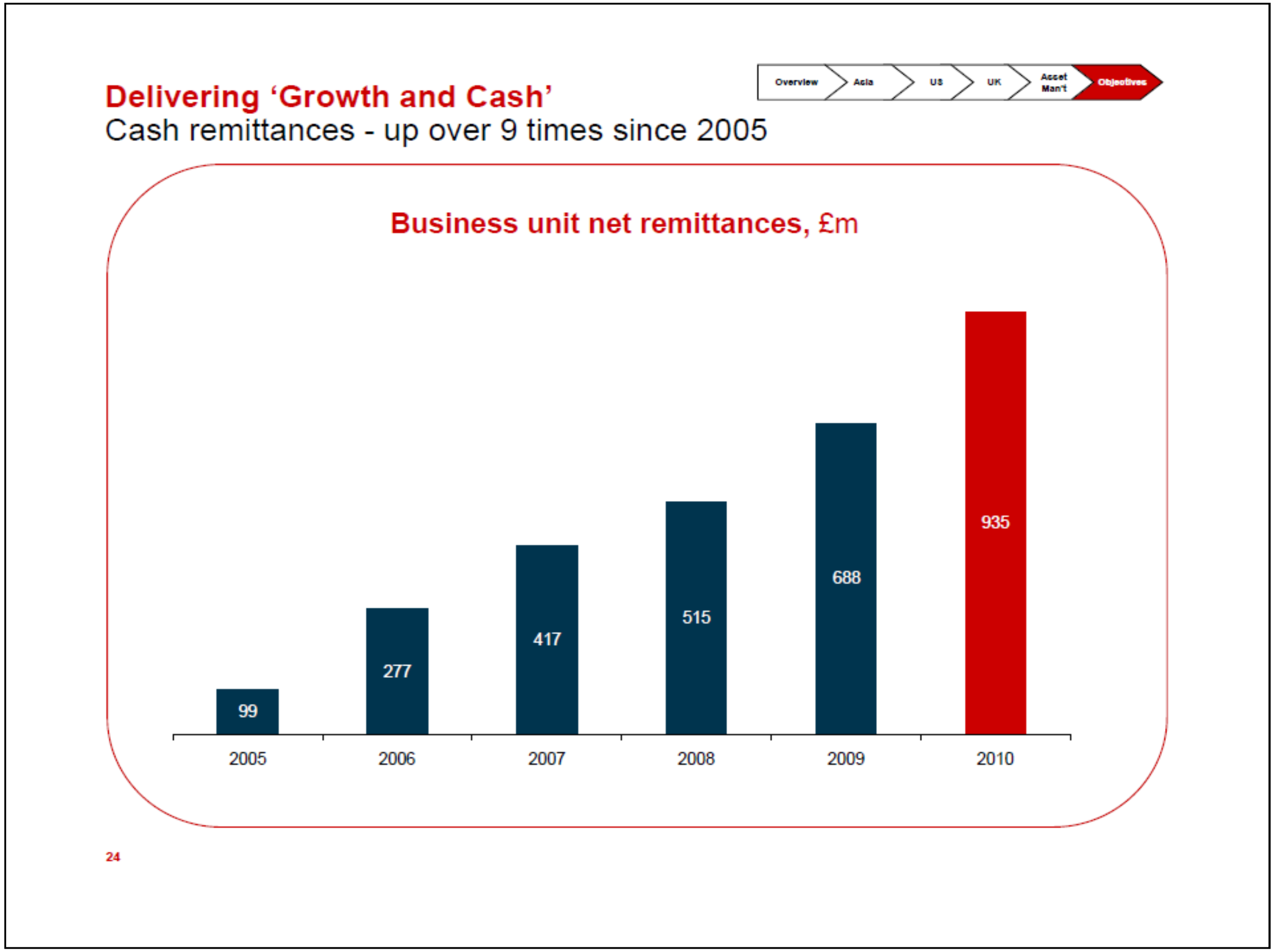
Summary IFRS life profit drivers

£m	FY09	FY10
UK	672	**850**
Aviva Europe	761	**893**
Delta Lloyd	277	**330**
North America	85	**174**
Asia Pacific	92	**71**
Operating profit	**1,887**	**2,318**

What does good look like?



What does good look like?



What does good look like?

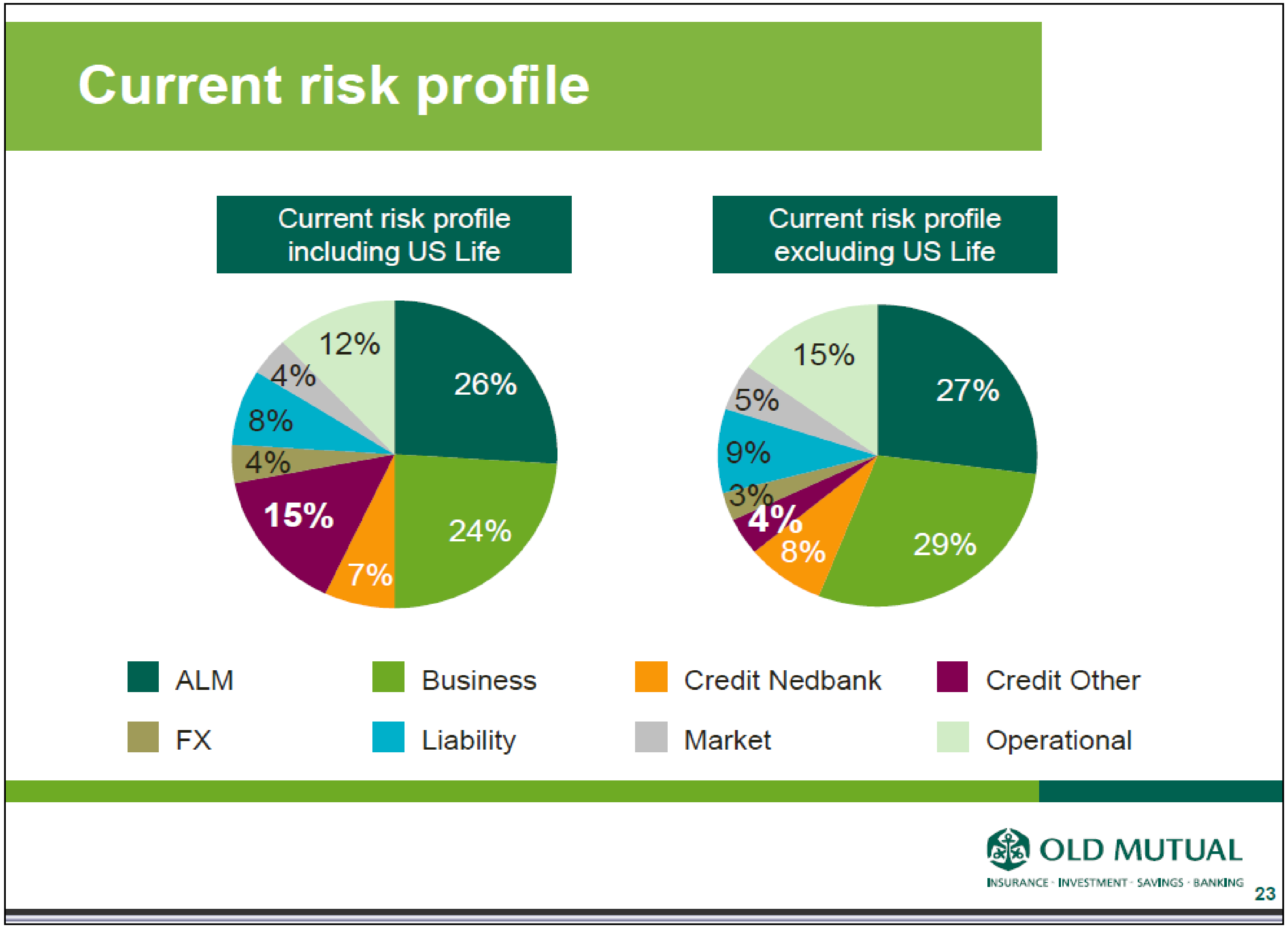
Risk profile

Afren

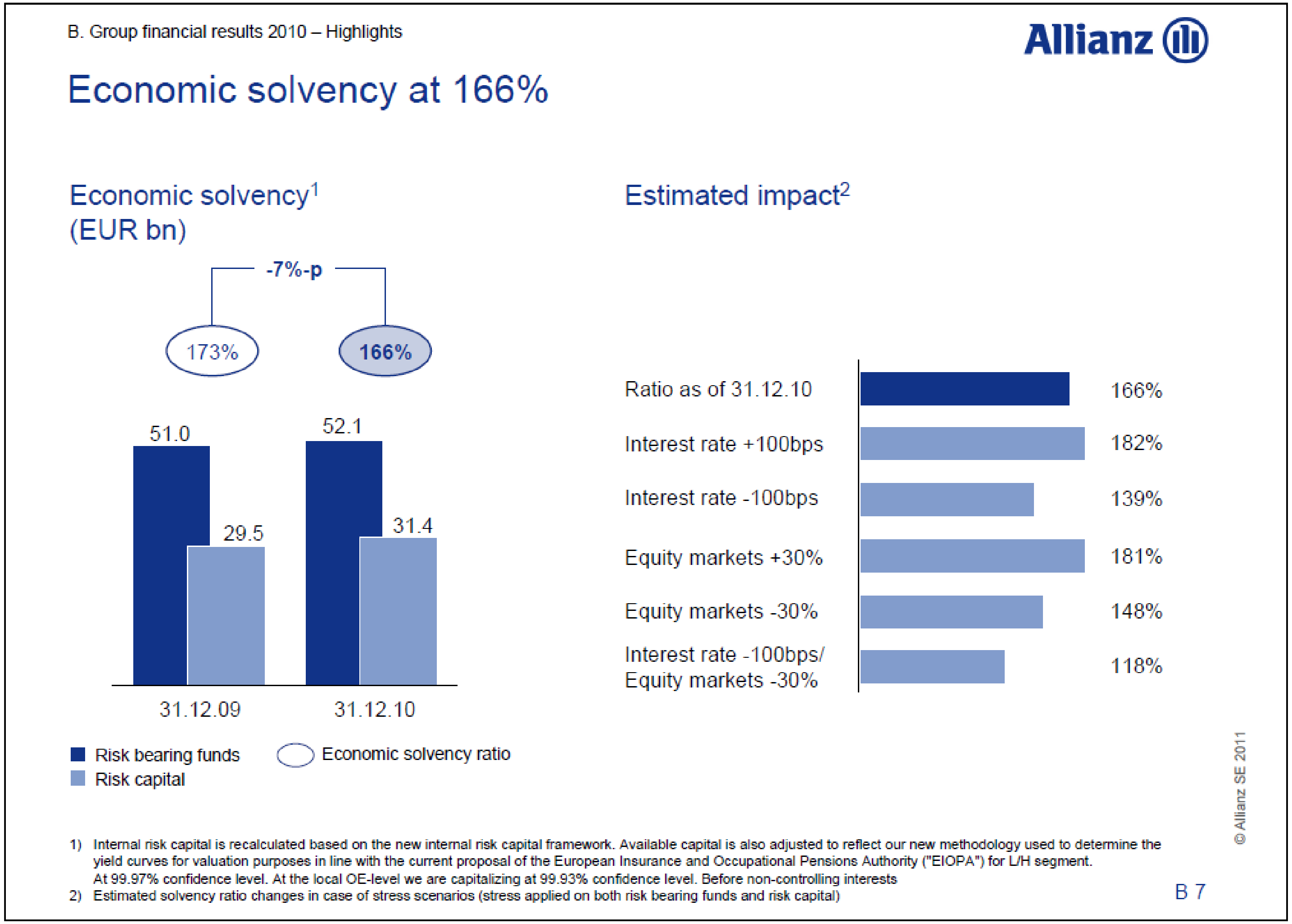
Managing our Risks

	Key risk	Detail	Assessment	How do we manage it?
01	**Field delivery risk**	• Operating in environments with operational risk which can cause delays, cost overruns, and ultimately lower than expected reserves.		• Afren Nigeria review the project delivery programme against plan and take actions and develop new courses of action based on findings on a monthly basis. • The finance function monitor costs against budgets to identify potential overruns. • Our engineers analyse results from appraisal and development wells and determine the appropriate course of action in terms of drilling programme and facility design.
02	**Exploration risk**	• Exploration activities can be capital intensive and may involve a high degree of risk.		• Budgets are produced by an experienced drilling team and regular peer reviews to capture best practice are performed. • Risk is managed using a portfolio approach, including the use of techniques such as farm downs. • Exploration programme is approved by the Board.
03	**Côte d'Ivoire and Nigeria country risk**	• Political instability in this developing economy could result in the loss of the business.		• Ongoing monitoring and close liaison on the ground to monitor the situation from an Afren safety and security basis. • Contingency plans in place.
04	**Environmental / safety incidents**	• Major pollution arising from operations and/or significant loss of life due to systems or equipment failure.		• We adopt best practice in the industry with on-site, country-level and corporate level policies and procedures. • Recognised potential implications of recent Gulf of Mexico events • Contingency plans in place.
05	**Management of growth / governance**	• Management of transition from an AIM listed to a Main Market listed company. • Ensuring the design and operation of controls is appropriate for its scale. and size.		• The board keeps internal controls and processes under constant review and takes steps to implement appropriate changes in the organisation. • The recruitment of an experienced Group Finance Director who has taken other businesses through the growth curve. • We have remuneration and training plans in place to attract and retain key people.
06	**Security incidents**	• Operating in regions where kidnapping, piracy and community unrest are commonplace.		• Following the recent incident in Nigeria our procedures to deal with this type of incident have been reviewed and the security arrangements at both Ebok and Okoro facilities have been upgraded. • We would anticipate that this type of incident would continue to be a risk and as a consequence our procedures are robust and under constant review.
07	**Host community action**	• Direct action by host communities that results in disruptions to operations.		• Pro-active community engagement. • Effective community development and employment programmes
08	**Unfulfilled PSC work obligations**	• Loss of production interest or exploration licence due to incomplete fulfilment of PSC obligations.		• The operations, finance and legal functions jointly monitor compliance with licence obligations. • Maintenance of good open working relationships with local governments in the countries of operation.
09	**Oil prices**	• Oil prices have fluctuated significantly over the past three years and given the current environment are expected to continue to fluctuate in the short term.		• The policy of the group is to protect its minimum cash flow requirements in the context of a sustained downturn in oil prices. • The group strategy to manage oil price risk is to hedge between 20-30% of the production curve by using financial instruments which allow the group to protect the downside risk.
10	**Loss of key employees**	• Loss of knowledge and skills to the group in particular in countries of operation.		• Succession planning is considered on a group wide basis, taking into account the development of the executive and senior management. • Remuneration policies are designed to incentivise, motivate and retain key employees.
11	**Taxation and other legislation changes**	• Operating in developing countries has additional risk of significant changes in taxation legislation on oil field profits or other legislation changes.		• Our financial and legal teams monitor current legislation and proposed changes and incorporate these into our working practices. • Maintenance of good open working relationships with local authorities in the countries of operation.
12	**Treasury management**	• The availability of financing to maintain the ongoing operations of the business is key.		• In 2011, the group issued a bond for $500 million, expects strong operating cashflow in 2011, has secured financing for Ebok field development and will continue to monitor its cash requirements carefully against the production curve and cash requirements.

What does good look like?

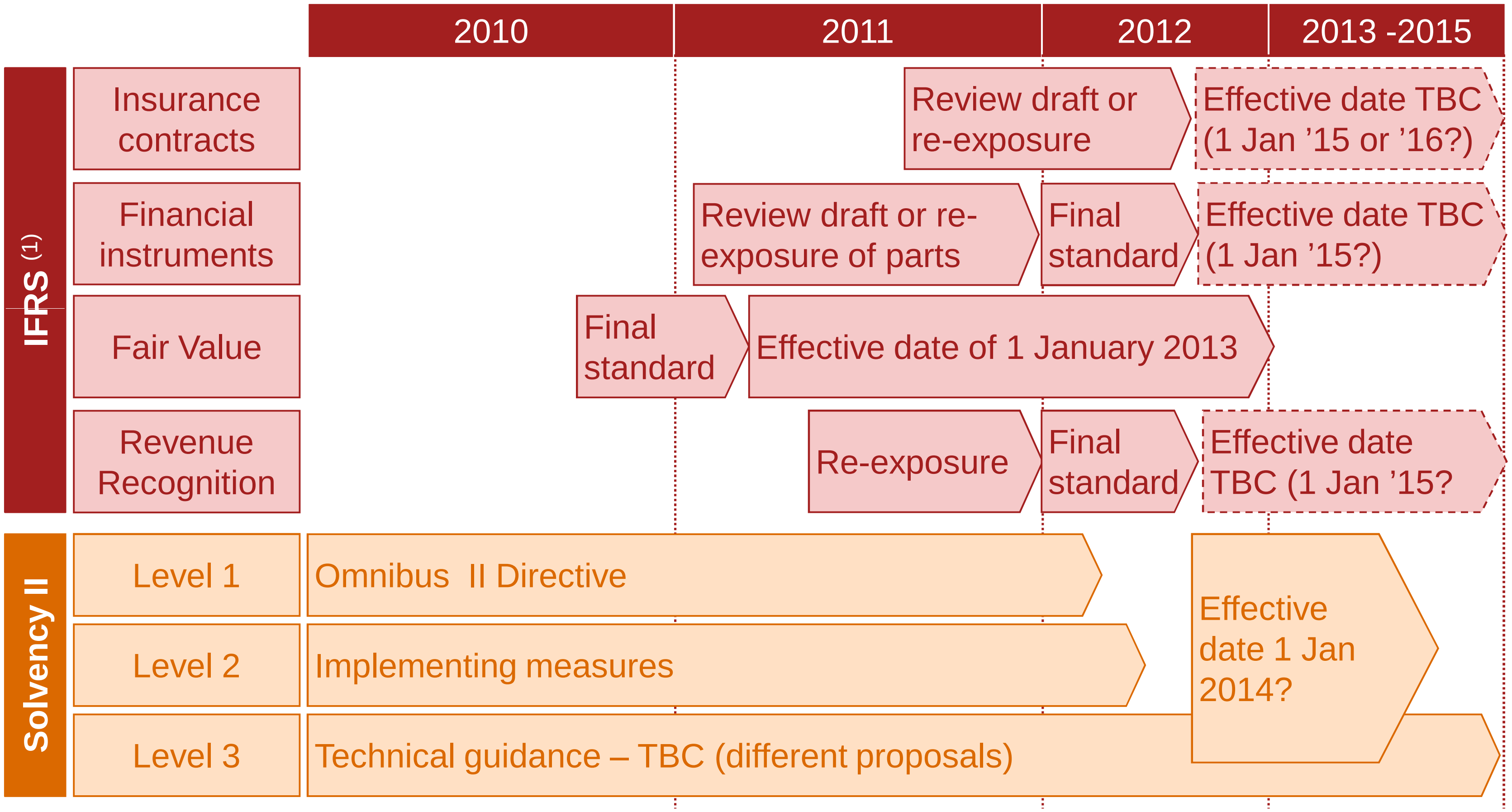


What does good look like?



What does good look like?... in future

IFRS and Solvency II

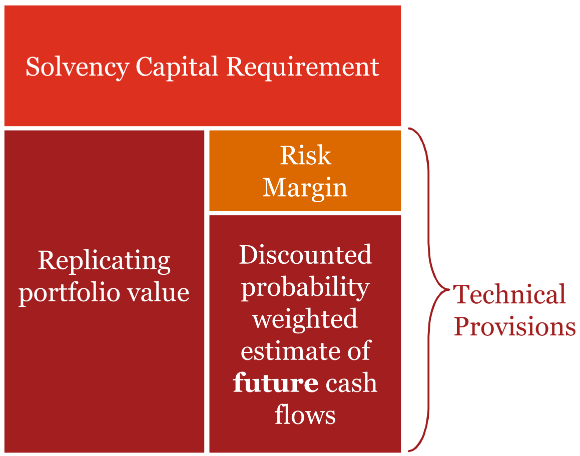


[(1)] **The effective date of all IFRS standards is subject to EU endorsement**

The confusion continues?

Solvency II & IFRS

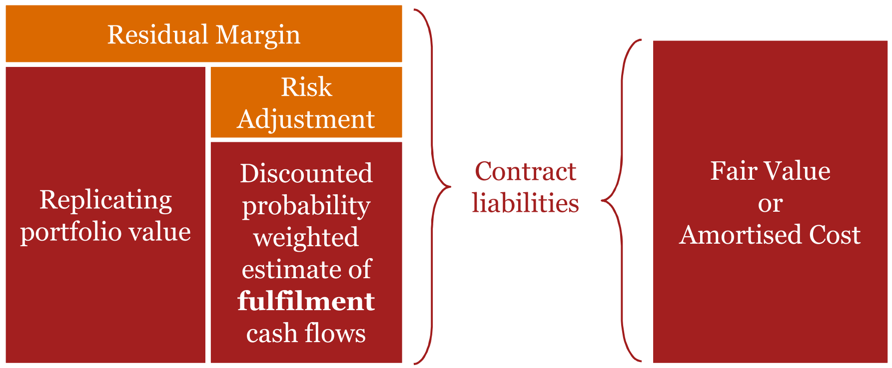
Solvency II



- Risk margin = Sets the technical provisions as the *expected amount required to take over and meet the obligations*
- Replicating portfolio methods are allowable with constraints
- As a regulatory regime, there are capital requirements. The Solvency Capital Requirement (SCR) is calibrated to ensure adequacy to withstand a 1 in 200 event

IFRS Insurance Contracts

IFRS Investment Contracts



- Risk adjustment = *Compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the contract*
- Replicating portfolio methods are allowable with constraints
- Residual margin is set to avoid a day one gain

- All financial liabilities are classified as fair value through profit and loss or amortised cost
- Initial measurement is at fair value (which will generally equate to the transaction price so that no initial gain arises). Subsequent measurement is at fair value (subject to a "deposit floor") or at amortised cost depending on classification

What should we be doing now?

CEO checklist

External perspectives

1-5

1. The stock market does not fully understand my business
2. Key components of what makes my business successful are missing from our external reporting
3. Our external reporting is not fully consistent with how we manage the business; we often produce information for investors which is not used internally
4. Finding the right suite of metrics for our life business is still very much a work in progress
5. We struggle to build an integrated framework for investors that helps join up 'cash', capital, value and risk

Internal analysis

1. We do not have a clear and consistent set of metrics which we use to run the business

2 There are significant differences between the metrics used within local businesses, and also between the metrics used by local BUs and group head office

3. I am not confident that the metrics we use to steer the business are integrated and 'joined up'
4. We are still developing our understanding of how economic measures of value translate into hard cash
5. Business units produce a lot of information that is very rarely looked at

Risk reporting

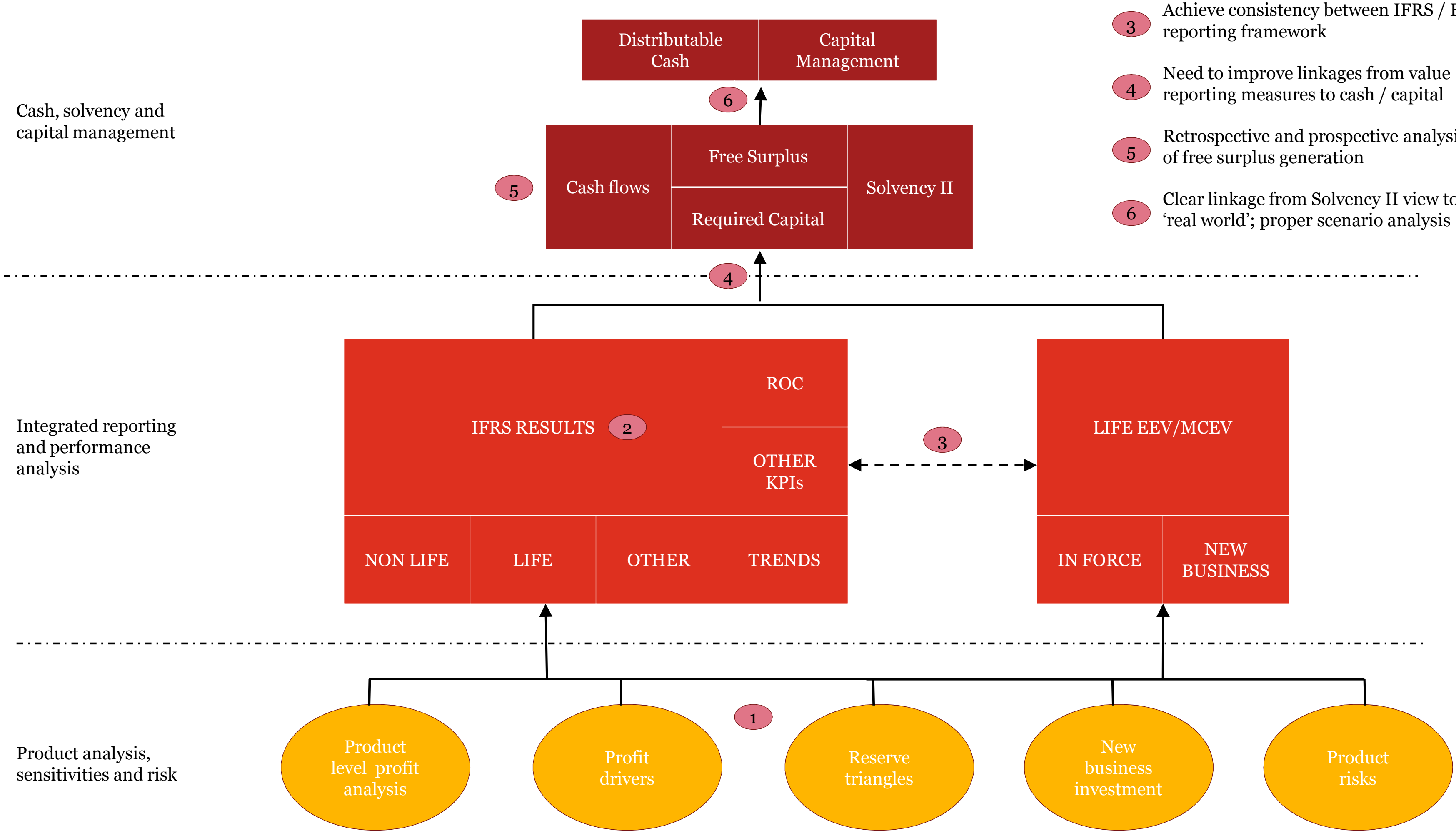
1-5

1. We are still evaluating what Solvency II will mean for our financial flexibility and capital strategy
2. We don't really know what the consequences of Solvency II will be for how we will manage the business
3. Although we know that Solvency II will not be perfect it's far from clear what would be better
4. We are still working on embedding consistent economic steering, and how to join-up risk and other financial reporting
5. We do not have an integrated suite of tools to help us manage through periods of stress

The right environment

1. Our Finance, Actuarial and Risk teams tend to work independently of each other
2. Too much time is spent producing the numbers rather than on gaining business insights
3. The finance team always seems to be in fire fighting mode
4. Our finance systems are more of a source of complexity than competitive advantage
5. My people are always complaining about the extent of manual intervention needed to produce new information

The future of insurance reporting?



1. Radical overhaul of disclosures, particularly for life insurers
2. Improve clarity of segment reporting; work to narrow inconsistencies
3. Achieve consistency between IFRS / EV reporting framework
4. Need to improve linkages from value reporting measures to cash / capital
5. Retrospective and prospective analysis of free surplus generation
6. Clear linkage from Solvency II view to ‘real world’; proper scenario analysis

What should we be doing now?

Getting value out of Solvency II

- Is Solvency II just a constraint or could it provide the answer?
- P&L attribution – what return did I make on that risk?
- Is this just about analysis of change & reconciliation?
- What if someone else publishes that information?

Preparing for IFRS II

- How will I explain my results in an IFRS II world ?
- What happens if IFRS II doesn't happen?

What should we be doing now?

Develop a vision of the future

- Do you have clarity on key stakeholder requirements?
- Are you getting the right information from business units? (timely & accurate?)
- Does that data reflect your business strategy and support your messages to the market?
- What can you stop producing?
- What impact will new information have?
(Solvency II Pillar 3, IFRS 2)
- Are you going to be a market leader, middle of the pack or follower?
- What are your peers likely to do?
- What will the operational impact be?

Summary

- Investors are looking for **clear and sensible** metrics that can be used to understand the business – they have no interest in the search for a technically 'perfect' but unworkable or unfathomable solution
- The debate over the future of IFRS has served to demonstrate that there is **no 'one way'** of judging insurance value creation
- Instead, insurers need to build an **integrated reporting framework** that has clear linkages between **risk**, **performance assessment** and **capital** analysis
- Those insurers that can build this around a **well articulated strategy** that plays to **differentiated competitive strengths** will have a far better chance of securing fund manager backing than those that do not

Questions?

Brian Purves

t: +44 (0) 20 7212 3902
e: brian.purves@uk.pwc.com

James Quin

T: +44 (0) 20 7212 6140
e: james.b.quin@uk.pwc.com

Further reading

http://www.pwc.com/gx/en/corporate-reporting/reporting-survey-2011-from-compliance-to-competitive-edge.jhtml

http://www.pwc.com/gx/en/corporate-reporting/integrated-reporting/publications/integrated-reporting.jhtml