




The Actuarial Profession

making financial sense of the future

Life Financial Metrics Workshop 24 April 2012

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Commercial Application

UNDERSTANDING AND MANAGING MULTIPLE METRICS

Contents

1. Our reporting objectives
2. Core philosophy
3. In practice
4. The future – all change?

1. Our Reporting Objectives

The financial reporting tapestry – we use multiple bases which are not aligned:

- EIFRS (IFRS with EEV principles for insurance contracts) for Group Reporting
- IFRS for local statutory reporting
- Pillar 1 for FSA returns
- Pillar 2 for ICA
- Some EV information
- Other returns
- Non financial metrics

HOW DO WE PRESENT A TRUE PICTURE OF THE BUSINESS?

1. Our Reporting Objectives

- Different interest groups
- Financial information is required/demanded by different stakeholders

1. Our Reporting Objectives

Telling our story – underpinned by our business strategy

Group	Need
Shareholder	Various – business, performance and strategic
Regulatory	Compliance with requirements, PLUS increasing demands for ad-hoc business performance information
Analysts	Business performance
Rating agencies	Various, including embedded value and capital
Business customers	Detailed financial performance, strategic and ad-hoc

2. Core Philosophy

Two key statements and beliefs

- Management reporting: “What gets measured gets done”
- “If you report it externally, measure it internally”

2. Core Philosophy

The balanced scorecard – the theory

- A common (and effective) solution
- Kaplan and Norton's tool for organisational performance management designed to allow a holistic view of key performance metrics covering a variety of elements successful to overall business performance

3. In Practice

Financial	Profit, capital, costs, key metrics like IRR and net margin
Growth (building our business)	Sales, strategic initiatives
Customer	Advocacy, feedback
Risk	Policy compliance, Sarbanes-Oxley issues
People	FTE and synergy targets, process compliance, performance management disciplines, people development (like succession planning)

3. In Practice

How we use the balanced scorecard

- Corporate scorecard for Insurance is key management information used and reviewed by the Executive and the Board
- Reviewed with the Group CEO on a monthly basis
- Every member of the Executive has a scorecard for their function
- Every colleague has a personal scorecard to measure their performance and contribution

To be effective all need to be aligned and fully support the corporate strategy

3. In Practice

Our key metrics and how (and why) we use them

Metric	Use
Sales (PVNBP)	Measure for business performance, sales performance and market share
Persistency	Actual versus expected by policy for profit monitoring and remuneration
IRR	Proxy for return on capital new business and initiatives (minimum required hurdle rate)
Net margin (EEV)	Value strategy

3. In Practice

Payback	Key measure when assessing investment cases and initiatives
“End to end” profitability	Based on EEV, to show combined manufacturer and distributor contribution to Group Profit
Sales performance metrics, for example foodchain analysis	Operational measures of salesforce efficiency and effectiveness as lead indicators for future sales
Profit before tax	EIFRS for Group Reporting
Funds flow	Analysis of movements in funds under management (inflows, outflows by surrenders, maturities, transfers, and market movements)

3. In Practice

Key features

- Multiple metrics covering all aspects of business performance
- Like financial reporting, many different bases and measures are used
- All need to be considered to get a 'balanced' view of performance
- Business as well as your financials on multiple bases

3. In Practice

Other metrics that are popular in the industry

- Analysis of cashflows (new business, existing business, dividends, and so on)
- IGD for capital strength, as well as additional capital ratios
- Return on capital/equity

4. The Future

The next few years will bring a number of changes, some fundamental:

- Solvency 2 – change the way insurance companies are run, managed, and measured
- IFRS Phase 2
- Continued pressure from external interest groups to improve disclosures and consistency
- Internal initiatives – tell our story to the world

4. The Future

BUT the core philosophy will remain unchanged. We will still need:

- A balanced assessment of key metrics
- Ability to manage companies across the range
- Provide insight for key business customers across multiple metrics – know your company and industry!

Questions or comments?

