The Actuarial Profession
making financial sense of the future

Life Financial Reporting Metrics Workshop
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Focus on disclosure

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Disclosure
The art of managing multiple metrics?

- Recap on Metrics?
- The Acronym

M ..methods
E ..employed
T ..to
~~**R** ..really~~ ..reliably
~~**I** ..irritate~~ ..inform
C ..confused
S ..stakeholders

"Measure of an organisation's activities and performance. Should support a range of stakeholder needs"
*quote taken from wikipedia definition of performance metrics

Disclosure
What is the problem?

I’ve calculated your numbers - what do you want now?

Disclosure
What do we mean?

- Disclosures are the additional pieces of information firms give to stakeholders or potential stakeholders:
  - To improve understanding of the operation of the company
  - To clarify and confirm the methodology used in preparing financial statements
- Disclosures can take many forms, for example
  - Notes to the accounts
  - Supplementary information
  - Narrative

Disclosure Principles

- For most metrics there will be a set of principles about what needs to be disclosed
- The key principles for the disclosure under most financial reporting metrics are:
  - To ensure consistency
  - To aid comparability
  - To promote transparency

Disclosure
Why all the fuss?

- All companies want to explain what they are doing and how well they are doing it.
- Different stakeholders have an interest in understanding the financial position of the firm
  - and each has a different interest or perspective
- Management too!
  - Helpful if internal measures align with those used externally!
- Life insurance a special case?

Disclosure
What is different about Life Insurance?

- Long term business
- Very little about the business is tangible
- Business is composed of a number of different product lines
- No two companies are alike
- Valuation of life insurance business is complex

Disclosure
What is required?

- Some is prescribed by means of statute or regulation
- Accounting Standards Board in the UK will mandate minimum standards for disclosure.
- Convergence of international standards for financial reporting, and hence disclosure, is planned
  - International Accounting Standards Board (IASB)
  - International Accounting Standards (IASs) and
  - International Financial Reporting Standards (IFRSs).

Disclosure
IASs and IFRSs

- International Accounting Standard 1 (IAS1)
  - Basis for presentation of general purpose financial statements
  - In contrast to e.g. regulatory financial returns for FSA
- International Financial Reporting Standard 4 (IFRS4)
  - Deals with insurance business issued in 2004
  - First IFRS to deal with insurance contracts,
  - Brought in disclosure regarding insurance contracts

IAS 1 objectives and requirements

- To ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.
- To set out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.
- Standards for recognising, measuring, and disclosing specific transactions are addressed in other Standards and Interpretations

IAS 1 – disclosure requirements
Financial information

Notes to the Financial Statements must

- Present information about the basis of preparation of the financial statements and the specific accounting policies used
- Disclose any information required by IFRSs that is not presented elsewhere in the financial statements
- Provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them

IFRS 4
Disclosure requirements

Alarmingly simple!

- An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.
- An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

- AVIVA's 2011 IFRS results covered 60 pages
  - 6 pages contained financial results and information
  - 54 pages of disclosures

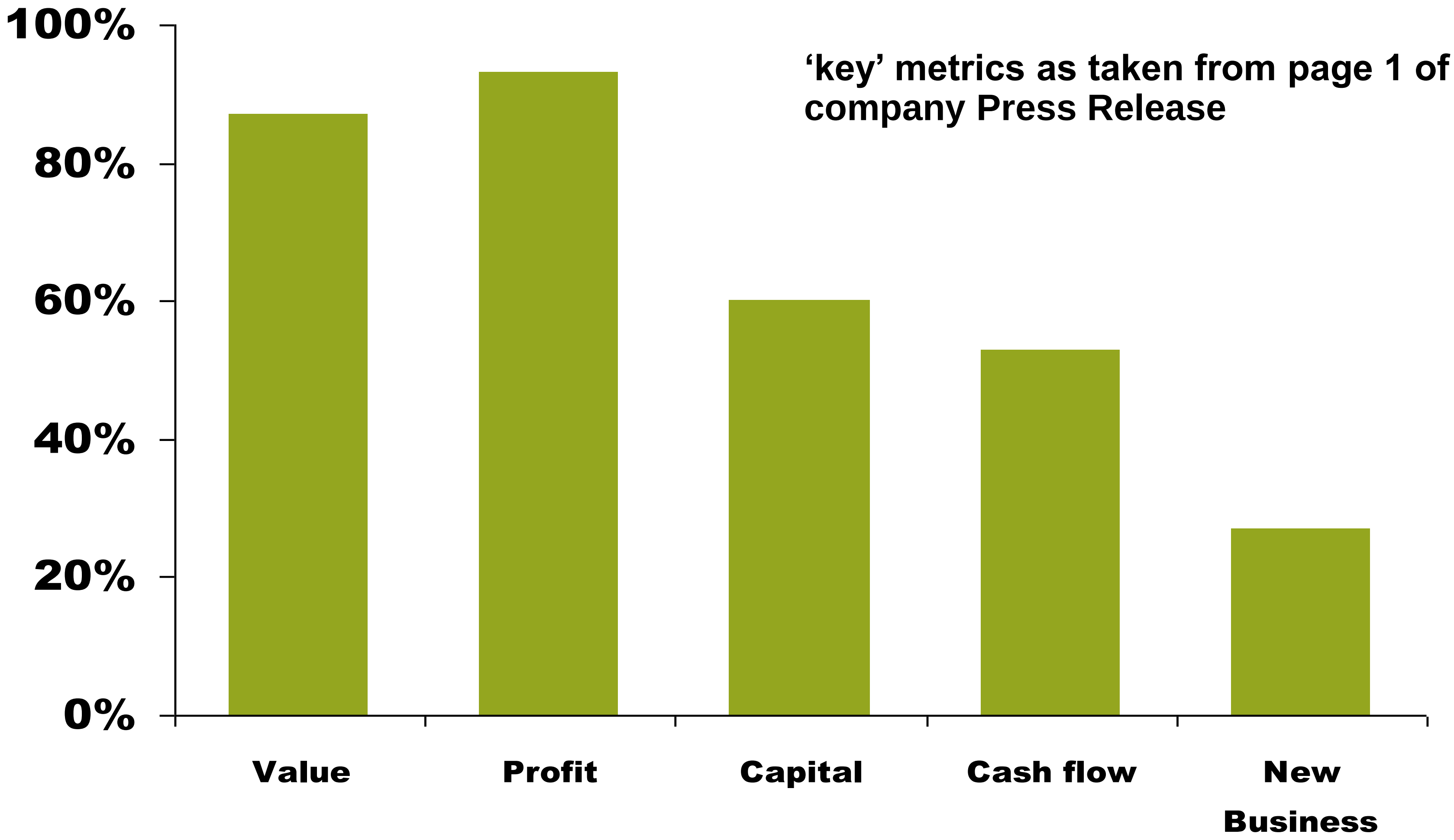
Supplementary Reporting Embedded Values

- *Stakeholders continually look for the best metrics*
- Embedded Value is a different way of reporting values
- EV helps investors value insurance companies.
- Initially information varied by country and by company
- Not always transparent, nor consistent
- Difficult for investors to compare relative performance.
- CFO Forum developed principles for consistency and transparency
- Market Consistent EVs the next phase of development?

Supplementary Reporting
CFO Forum key metrics

Value	EV / IFRS basis, Shareholder Equity, NAV
Profit	Total vs Operating, Net vs Gross, EV vs IFRS
Capital	Solvency Capital Ratio, Economic Capital Ratio
Cash flows	Dividends, Inflows, Operating Free Cash Flow, Cash Generation, Capital Generation
New Business	VNB, New Life sales, Margins, IRR, New Business Profit

Supplementary Reporting – YE 2010
CFO Forum companies - key metrics reported



Source: Towers Watson analysis of CFO Forum key financial indicators

Solvency II – new disclosure requirements “Internal” reports

Own Risk and Solvency Assessment (ORSA):

- The firm’s own view of its risk profile and capital needs
- Describes the way the firm manages risk
- Depends upon the nature, scale and complexity of its risks
- Forward looking
- Produced at least once a year
- A version of the ORSA will be provided to supervisors

Solvency II – new disclosure requirements
Public reports

Solvency and Financial Condition Report (SFCR):

- Published annually, copied to supervisor

Covers a wide range of matters, can refer to other material already published

- Description of the business and performance
- System of Governance
- Risk profile
- Solvency valuation
- Capital management

Solvency II – new disclosure requirements *Supervisory Reports*

Regular Supervisory Report (RSR)

- Annual report
- The RSR will be closely related to the SFCR
  - but will have greater detail
  - Also links with the ORSA
- Also required if significant change in risk profile

Analyst's view – Goldman Sachs (Life Convention Nov 2011)
"Valuation – confusion abounds"

- Problems stem from liability valuations – most methods rely on mean reversion
- Some management incentives are driven by an economic framework, some by accounting framework and some by a hybrid. There is no clear intersection between the various metrics
- How do we know we have NOT entered an environment with a step change in investment conditions?

IFRS	Traditional EV / FCF	MCEV	Statutory
• Assumptions used to calculate liabilities can be locked-in at inception • Results in static liability charge overstating the earnings in the current environment	• Also does not reflect the fair value of the liability • Cash flows depend on real world assumptions which are deterministic	• MCEV declines when interest rates fall • The only economic based measure available but is very conservative	• Calculated on a different basis depending on the geographical region

Disclosure
Final thoughts

- Disclosure continues to evolve
- But does it all add value?
- Perhaps more art than science?
- Another Acronym

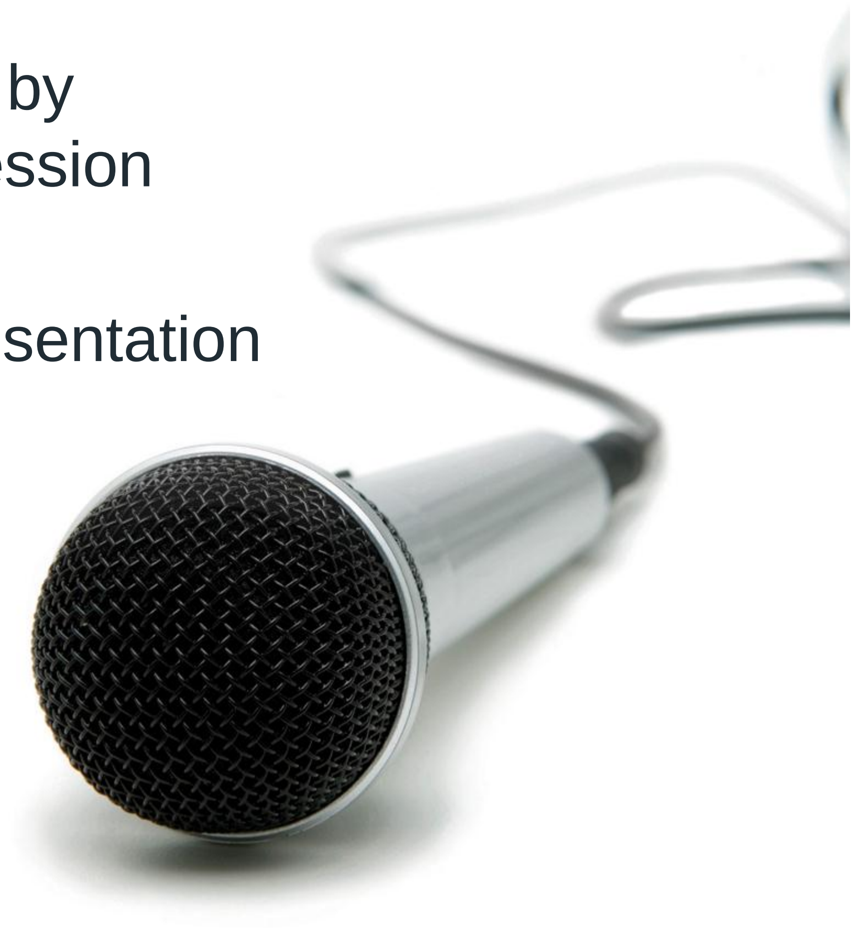
M ..methods
E ..employed
T ..to
R ..reliably
I ..inform
C ..concerned
S ..stakeholders

"Information is not knowledge"
Albert Einstein

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



IAS 1 – disclosure requirements
Non-financial information

Increasingly disclosure is required for non-financial information, for example:

- The firm's financial risk management objectives and policies
- Unrecognised contractual commitments
- Disclosure of the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.
- Disclosure of key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

Supplementary Reporting
The role of the CFO Forum

- The Chief Financial Officers' Forum (CFO Forum) is a high-level discussion group
- Composed of the Chief Financial Officers of major, listed, European insurance companies, established in 2002.
- Its aim is to influence the development of financial reporting, value based reporting, and related regulatory developments for insurance enterprises
- In 2004 the CFO Forum published principles for reporting European Embedded Values to improve consistency and transparency.

Supplementary Reporting
MCEV – the next phase?

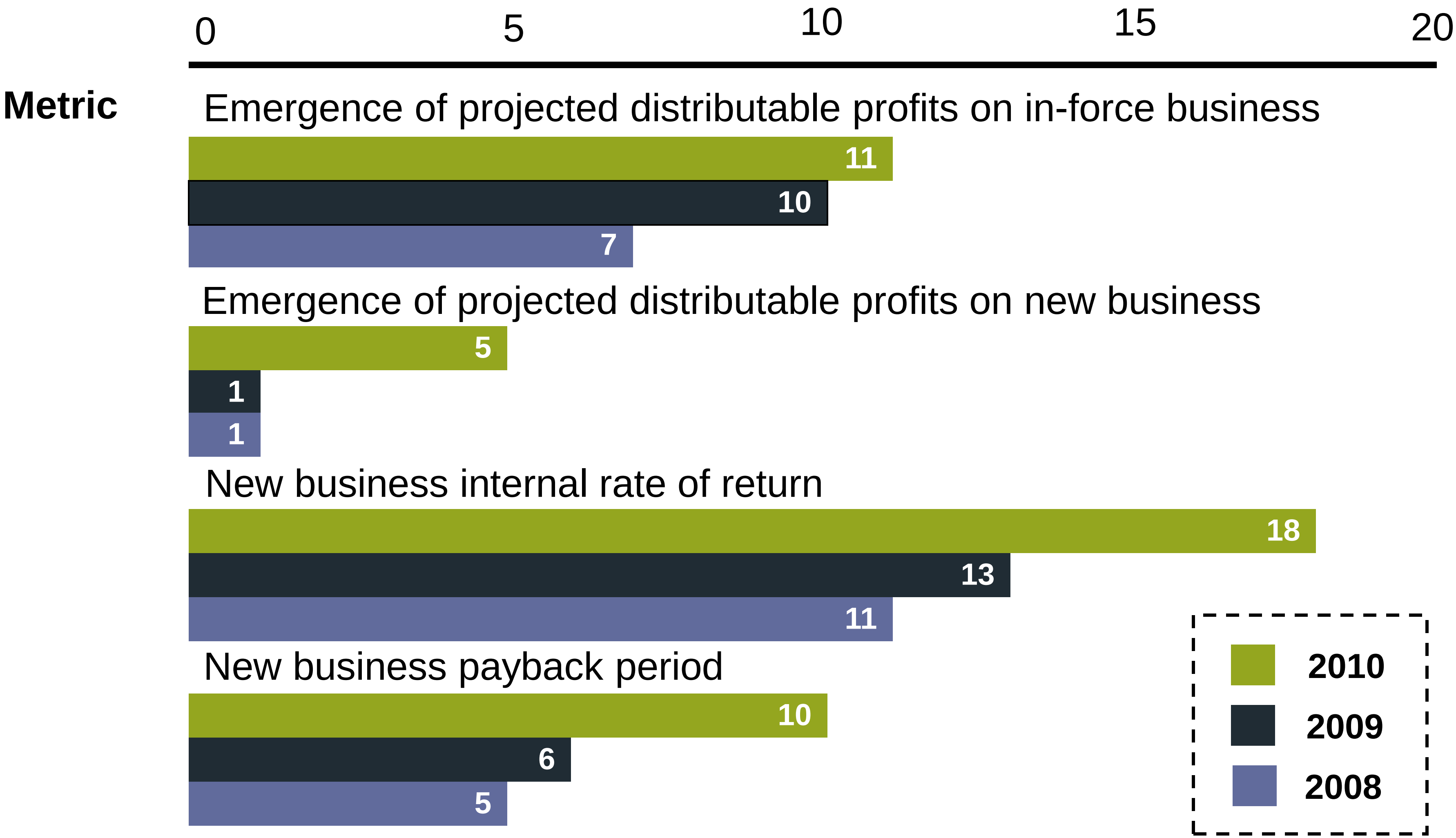
The CFO Forum published Market Consistent Embedded Value ('MCEV') Principles© in June 2008 with the aim of

- Greater consistency and improved disclosure to the European insurance industry's Embedded Value disclosures.
- Updatwed in October 2009 to permit an illiquidity premium

The MCEV Principles were designed to bring:

- A shareholder's perspective on value, being the present value of future cash flows available to the shareholder, adjusted for the risks of those cash flows.
- A market consistent approach to financial risk.
- A greater focus on disclosing cash emerging from covered business.

Supplementary Reporting – YE 2010
Voluntary information disclosed



Source: Towers Watson Insights May 2011 *Insights* “2010 EEV/MCEV: Focus on value and cash flow”

Solvency II – new disclosure requirements
Supervisory Reports

- Quarterly Reporting Templates (QRTs) provide core information on point in time estimates of minimum capital requirement, the solvency capital requirement, some information on technical provisions and assets and own funds
- An Annual QRT will provide more complete information about technical provisions and reinsurance contracts etc
- National Supervisors can then ask for further supplementary information, for example about with-profits funds