

CILA II

Alastair Black, Towers Watson

Future Insurance Accounting

What will it look like and how will we manage it?

6 October 2011

Agenda

- Update on the latest IFRS developments
- Interaction with Solvency II and EV
- Implementation challenges

Balance sheet overview: Insurers

IAS 38 *Intangible Assets*
IFRS 3 *Business Combinations*

IAS 18 *Revenue*
IFRS 4 *Insurance Contracts*

IAS 40 *Investment Property*

IAS 39 *Financial instruments: Recognition and Measurement*
(Fair Value Measurement)

IAS 32: *Financial Instruments: Presentation*

IFRS 7 *Financial Instruments: Disclosures*

IAS 39 *Financial instruments: Recognition and Measurement*

Intangible
Assets

DAC

Property

Financial
Instruments

Cash

Assets

Shareholder
Equity

Insurance-
related
Liabilities

Debt

Other
Liabilities

Liabilities &
Equity

IFRS 4 *Insurance Contracts*

} Insurance
contracts

IAS 39 *Financial instruments: Recognition and Measurement*
(Fair Value Measurement)

} Investment
contracts

IAS 18 *Revenue*

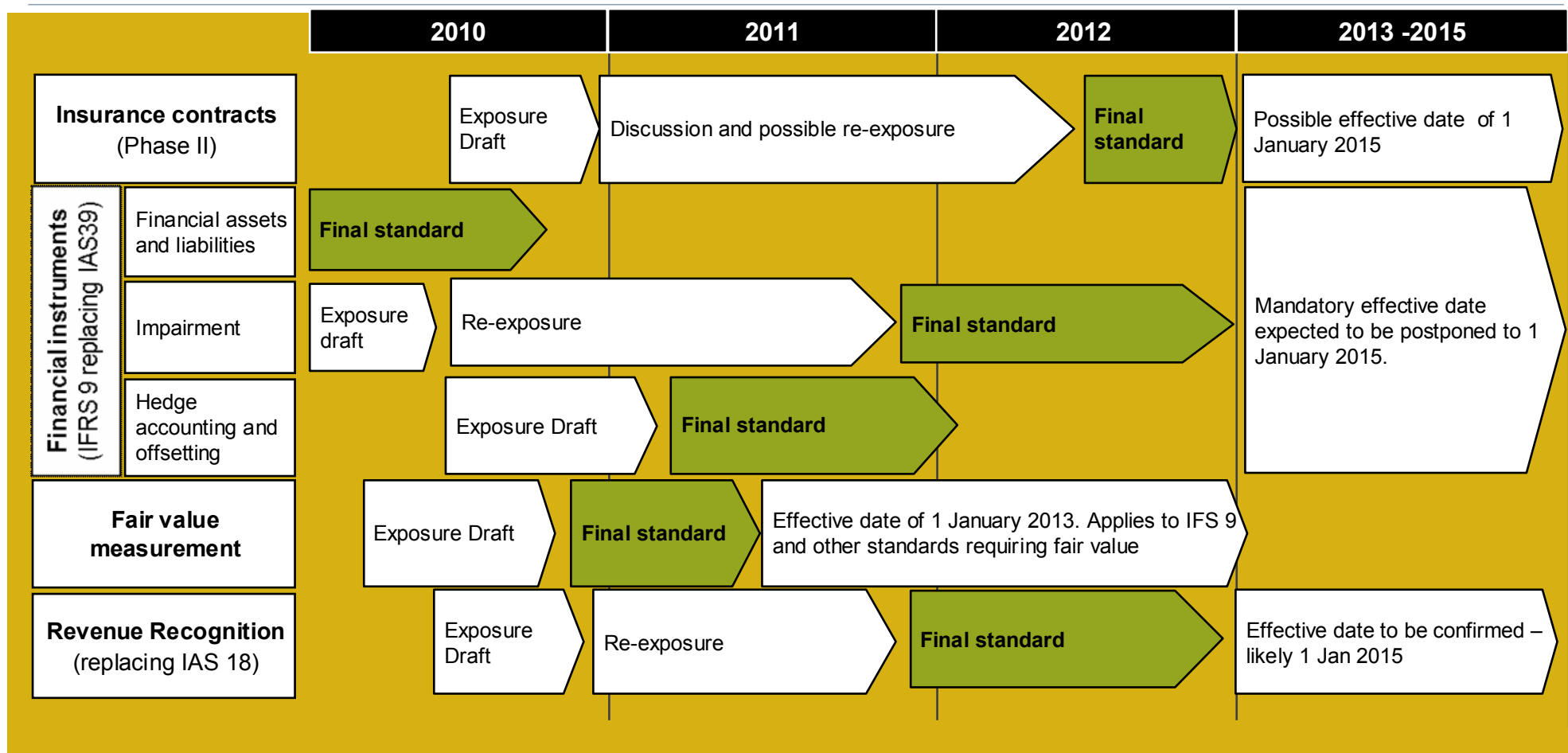
IAS 39 *Financial instruments: Recognition and Measurement*

IAS 12 *Income Taxes*

IAS 19 *Employee Benefits*

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Future IFRS Workplan



Subject to IASB transition project and (for European Union companies only) endorsement by European Union

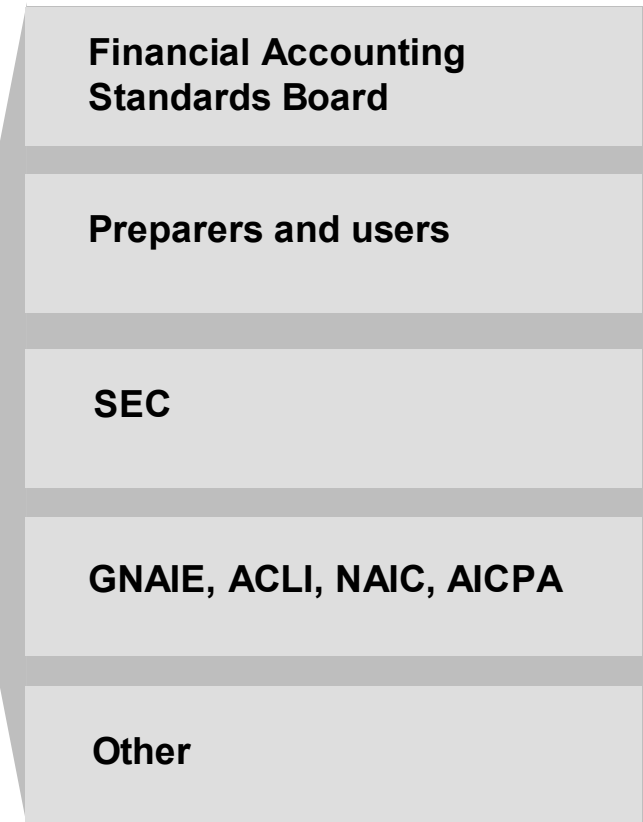
Political process affects the timetable

Global stakeholders (non-U.S.)

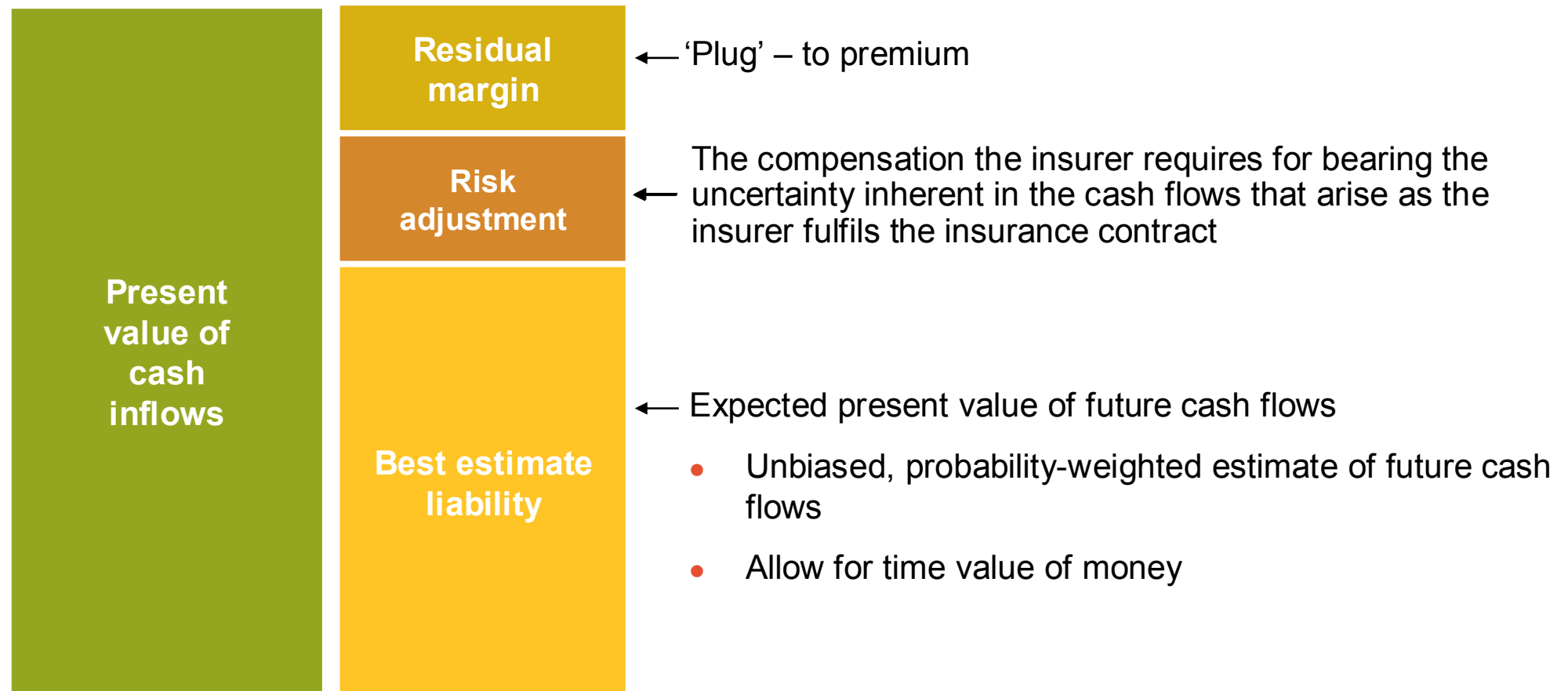


Convergence?

U.S. Stakeholders



IFRS Phase II Insurance contract measurement model (Exposure Draft and latest developments)



More info in October 2010 TW Insights *IASB's Insurance Contracts Exposure Draft*

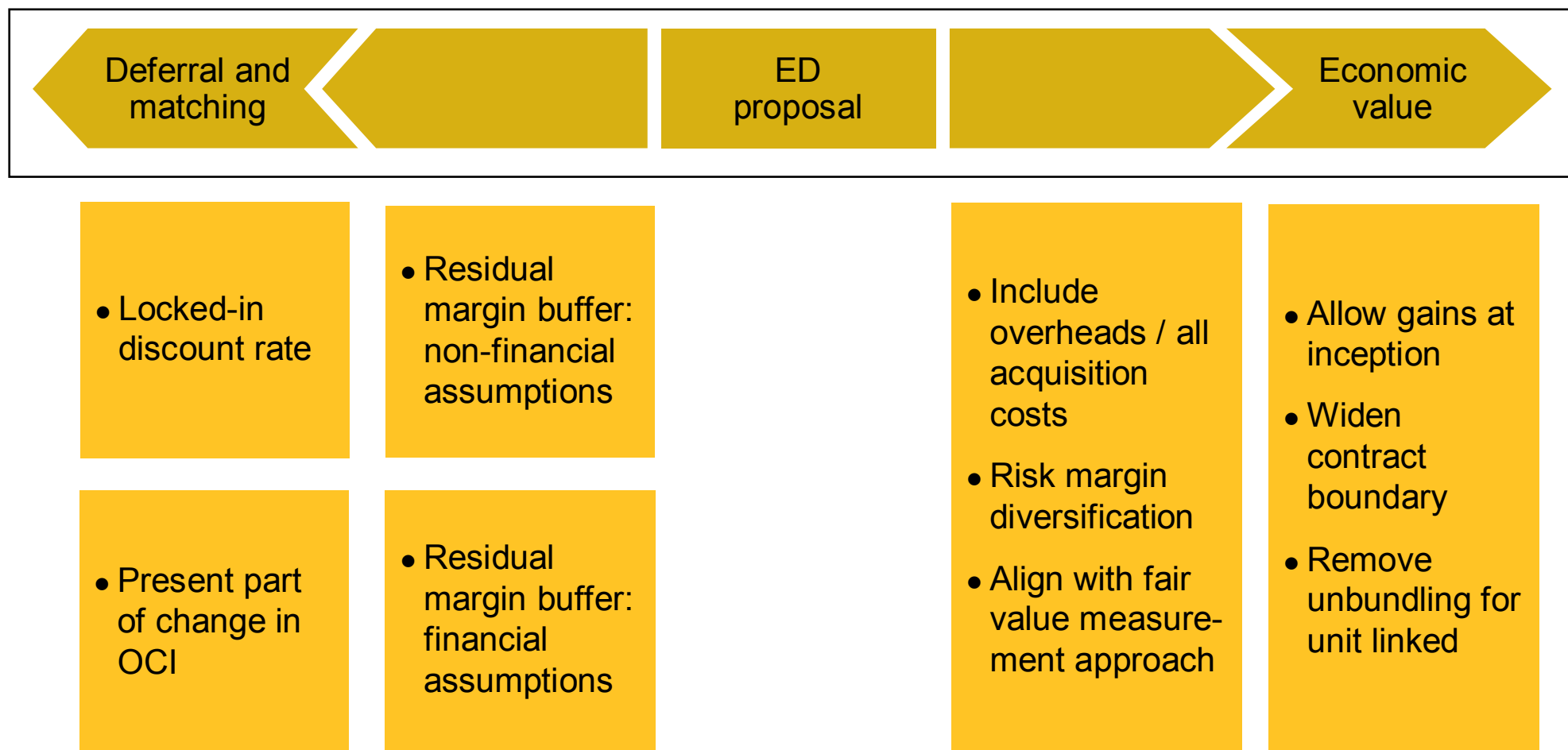
Towers Watson comments on IFRS Insurance Contracts Exposure Draft

- ED represented significant step forward
- We welcomed the many aspects helping achieve more uniform, consistent and comparable financial statements for insurers worldwide
- Main suggested changes:

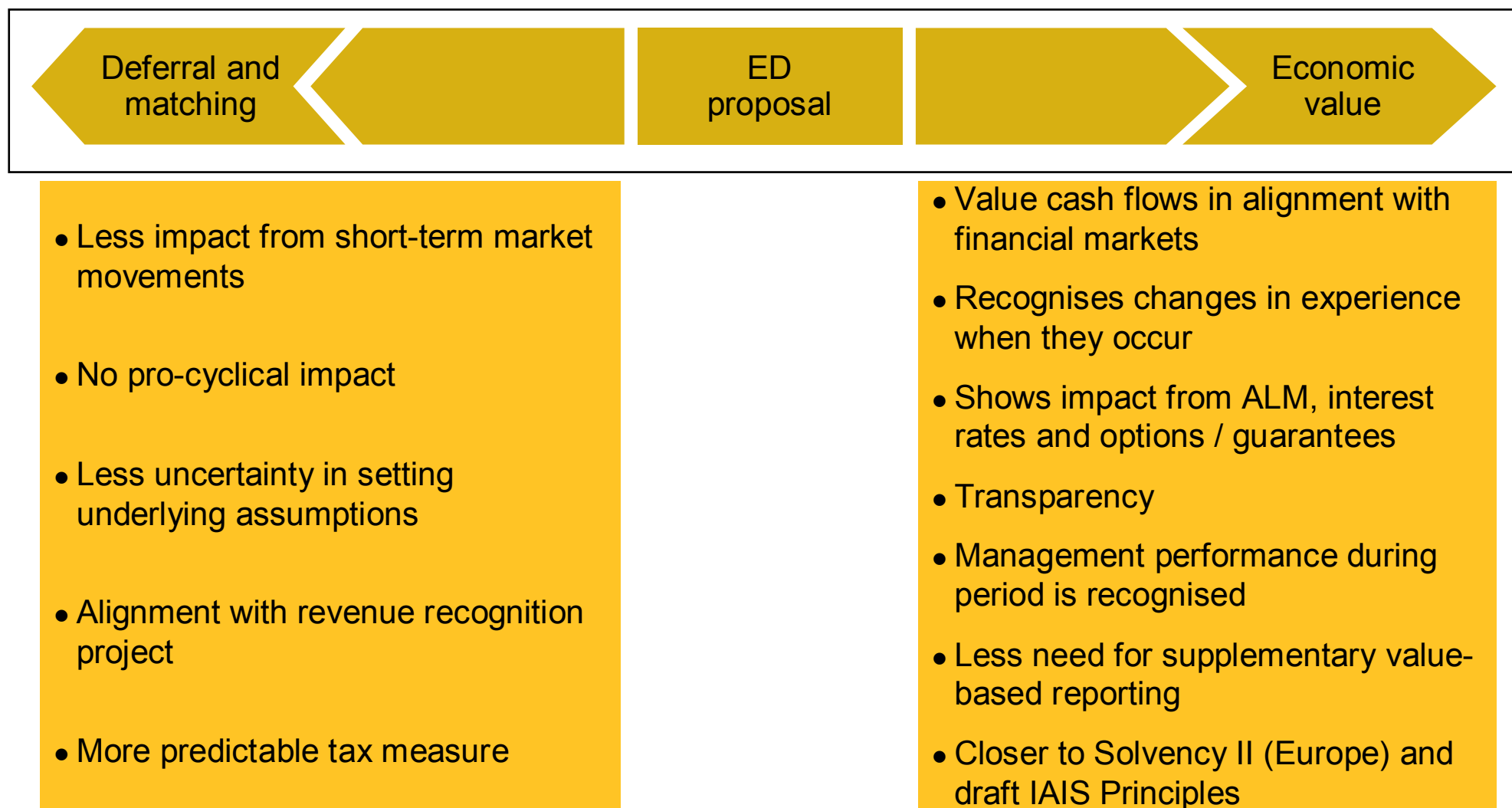
Topic	Towers Watson position
Measurement model aspects	Hybrid measurement approach hard to understand. Detailed aspects covered in next few slides.
Transition	Retrospective approach on a “best endeavours” basis
Presentation and disclosure	No information on capital movements
Contract boundaries	Broadly happy, subject to need for some clarification. Some issues for health insurance contracts.

TW response to the IASB recommended period of further exposure for any significant changes

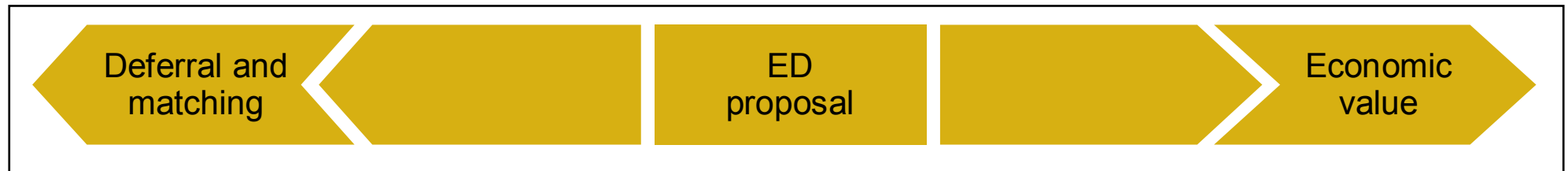
Respondents to the ED proposed a variety of solutions



The two measurement models each have a number of advantages ...



... and would most likely lead to a more coherent interpretation of the results

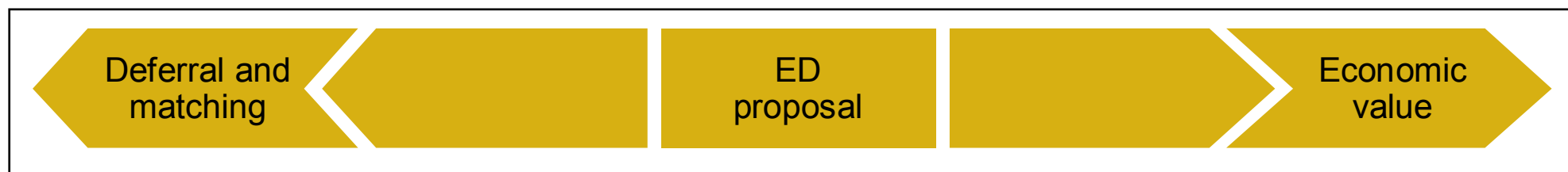


Allocation of revenue and expenses to future periods in accordance with provision of risk coverage or services

Measure value generation to shareholders

So how have the IASB moved since the ED?

During 2011 IASB has considered proposed solutions



- Locked-in discount rate



- Residual margin buffer: non-financial assumptions



- Present part of change in OCI



- Residual margin buffer: financial assumptions



- Include overheads / all acquisition costs



- Risk margin diversification



- Align with fair value measurement approach



- Allow gains at inception



- Widen contract boundary



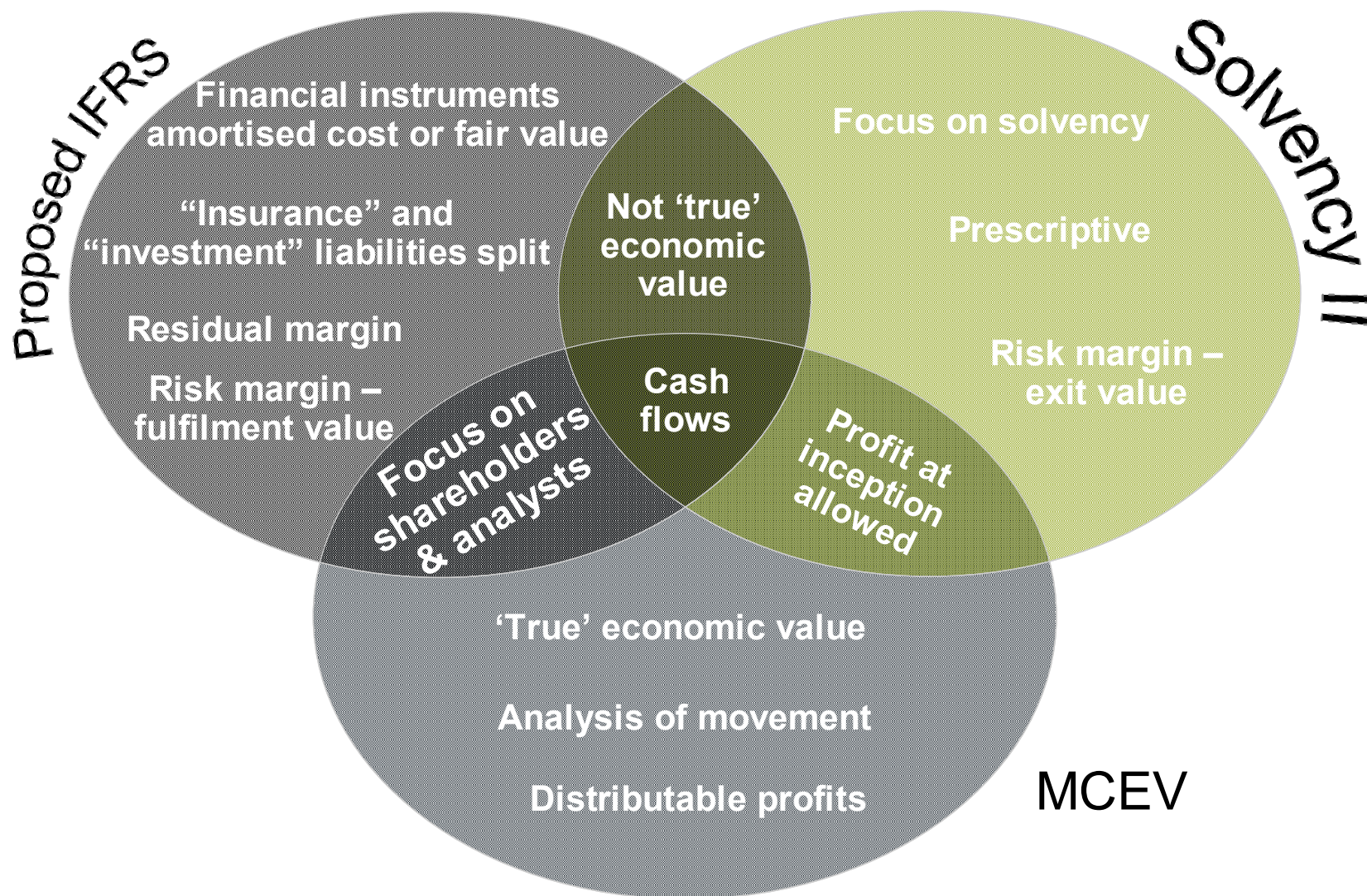
- Remove unbundling for unit linked



Agenda

- Update on the latest IFRS developments
- **Interaction with Solvency II and EV**
- Implementation challenges

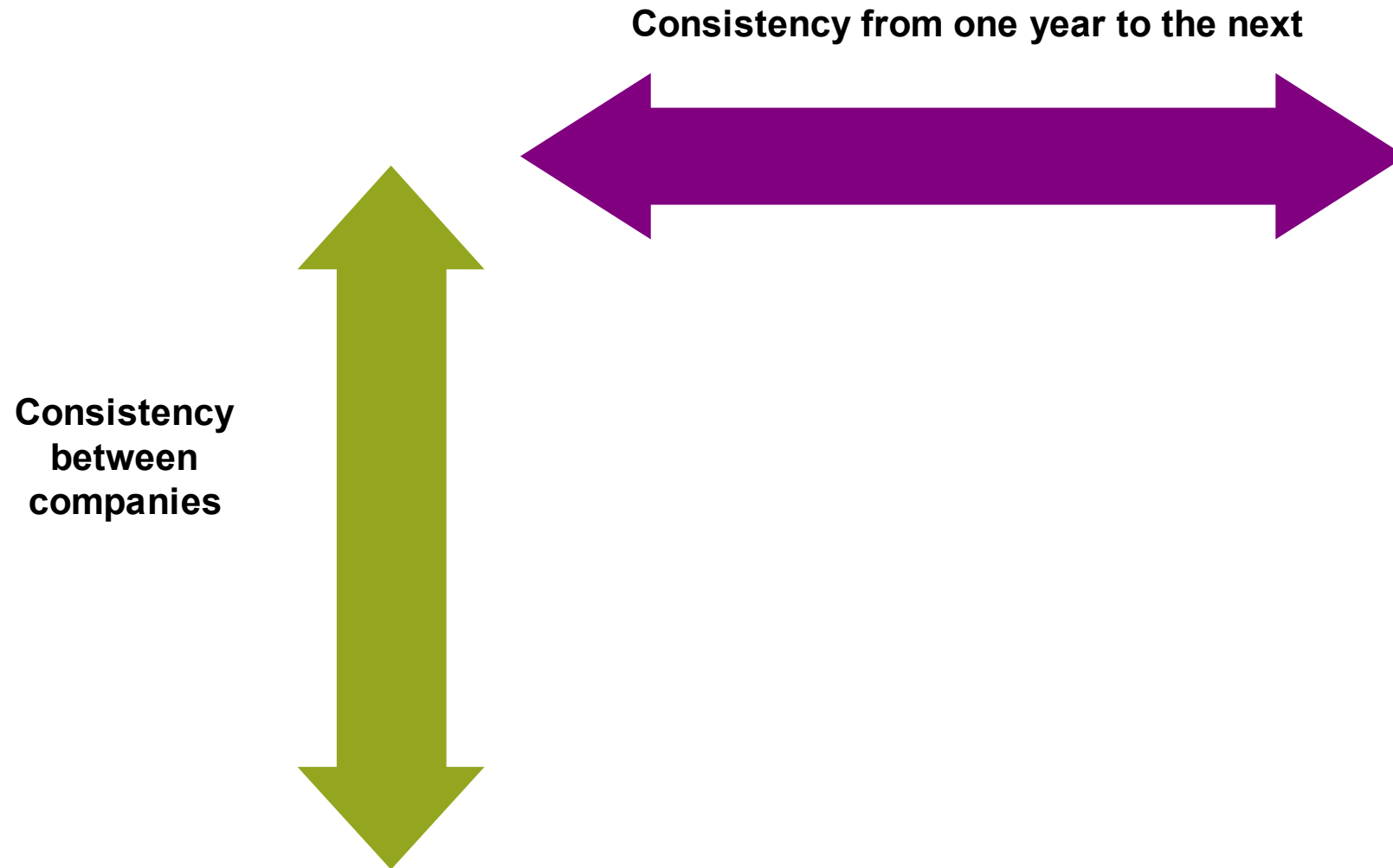
Lack of convergence between Proposed IFRS, Solvency II and MCEV



Transitional period: what IFRS basis to use post-Solvency II adoption and pre-Phase II?

Approach	Advantages	Disadvantages
Maintain current approach	Short term consistency	Parallel modelling effort; Does this comply with IFRS 4?
Adopt Solvency II	Uses latest regulatory capital and models	Two transitions – potential large movements; Does this comply with IFRS 4?
Adopt new insurance contract standard early	Minimise transitions	Requirements not finalised
Under IFRS 4 adopt new measurement model aspect of insurance contract standard	Minimise transitions; Less work than full adoption	Requirements not finalised; Does this comply with IFRS 4?

Future role for EEV/MCEV? – Short term



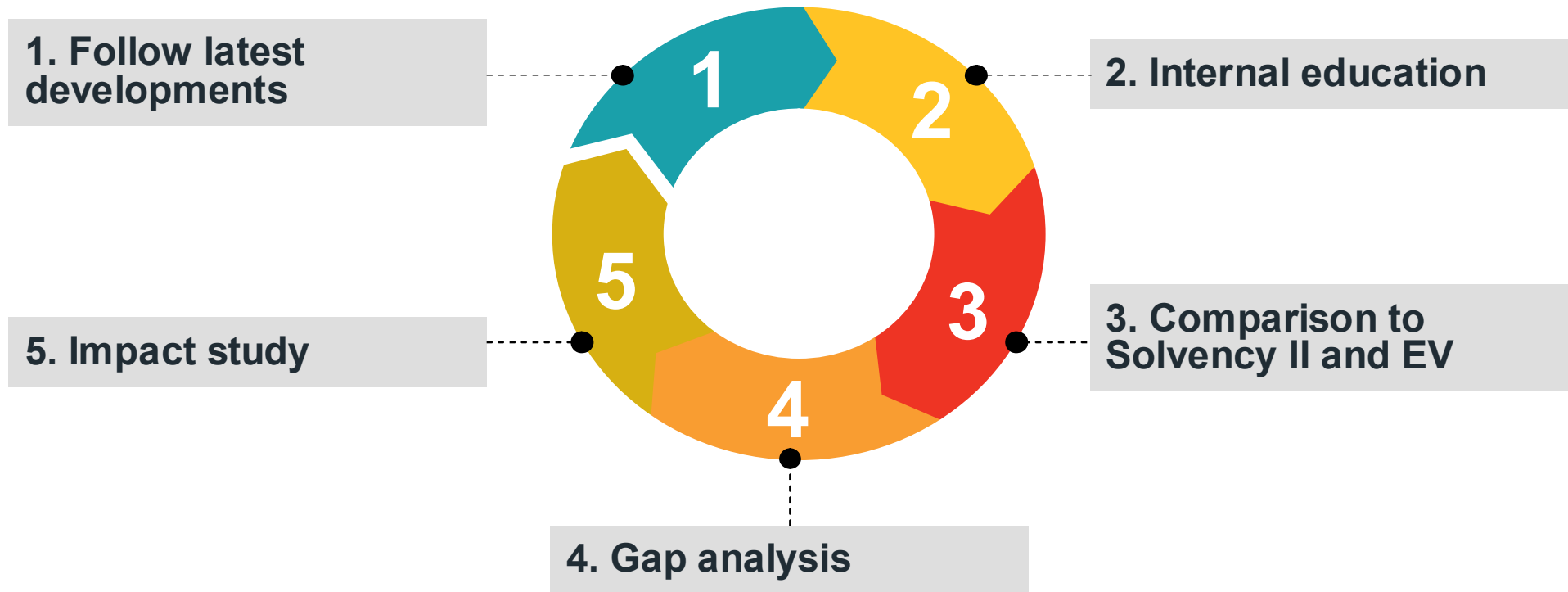
Future role for EEV/MCEV? – Long term

- Will Solvency II deliver an “economic equity”?
- Role for additional supplementary information?
 - Analysis of movement / free surplus
 - Shareholder distributable profits
- Balanced scorecard
 - Multiple metrics
 - Sensitivities
 - Can this be delivered in a timely manner?
 - For publication or internal purposes?
 - Communication challenge

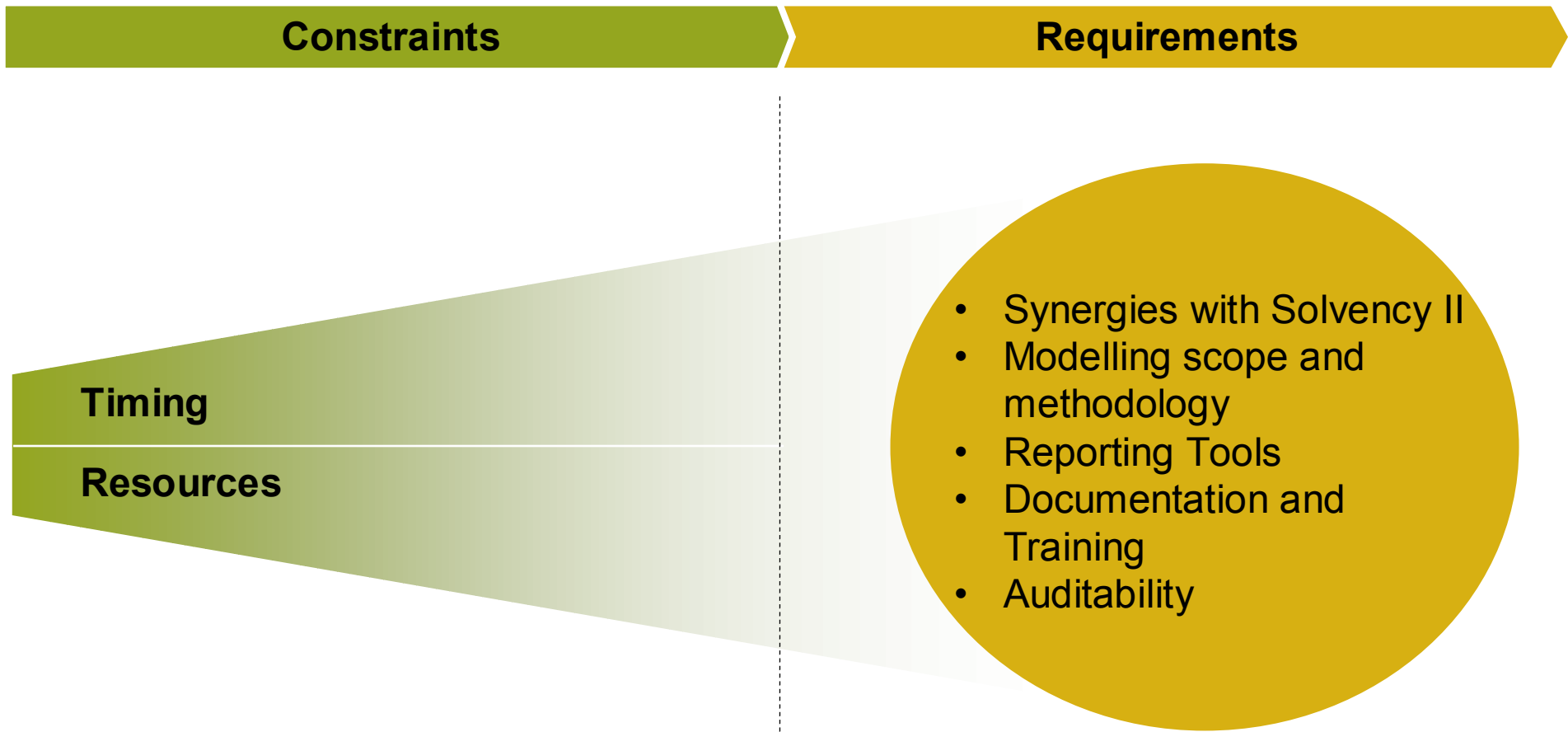
Agenda

- Update on the latest IFRS developments
- Interaction with Solvency II and EV
- **Implementation challenges**

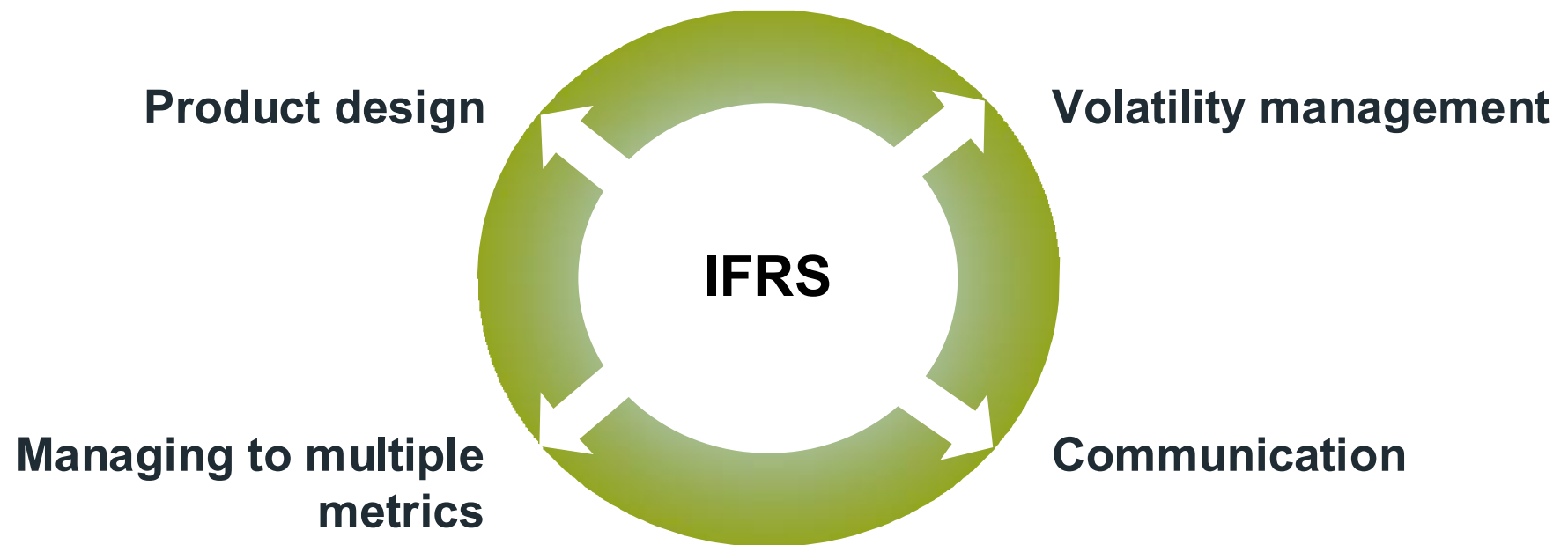
Education and interpretation challenges



Financial modelling challenges



Future BAU and strategy challenges



Agenda

- Update on the latest IFRS developments
- Interaction with Solvency II and EV
- Implementation challenges

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.

