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Accounting Issues Update

19 April 2005

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Topics for today


- UK GAAP
- Developments in Embedded Values
- IAS
- Professional guidance



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UK GAAP

- FRS 27
 - Implemented from 2005 year end
 - Memorandum of understanding ("MOU") for 31/12/2004
- ABI SORP (2003)
 - Implemented from 2004 year end



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FRS 27 – “Future investment margins”

- “Will result in an adjustment to retained earnings ... and will lead to increased volatility in the reported income from long-term assurance business.”
- *“The discount rate contains an allowance for investment risk ... (VIF) excludes any amount that relates to expected future investment margins”*
- No explicit mention at all.
- “...not expected to have a material impact on the Group”

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Capital position statement

- Business split: WP / NP, UK / Overseas, ...Legal entity
- Standard Capital items: SHF, FFA, Regulatory adjustments
- Other: Various levels of detail on
 - Subordinated loans
 - Implicit items
 - Items that were unclear

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Options & Guarantees disclosures

2003	2004
Hardly mentioned. A couple of lines in the Finance Director' Review and mention that the provision includes allowance for options.	Explicit section in the Annual Report spreading over 3 pages.

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Developments in EV / MC EV / EEV

- Reasons for the developments
 - Greater comparability across European life insurers
 - Improve accounting treatment of guarantees
- Developments are summarised in the February 2005 sessional paper from Pat O'Keeffe working party

The Profession needs to decide how to build on the report from the working party. Should it focus on:

- Technical issues: "frictional costs";
- Market practice: comparability
- Practice guidance: Is there a role for working via Groupe Consultative?

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IAS – Actuarial hot spots from implementation projects

- Difficulty of finalising accounting policies
 - In the absence of precedents
 - When the auditors are being cautious
 - And there is diverse practice between insurers
- The introduction of DAC / DIL under IAS 18 Revenue recognition
- Interpreting the rules for classifying contracts as insurance, investment, investment with DPF

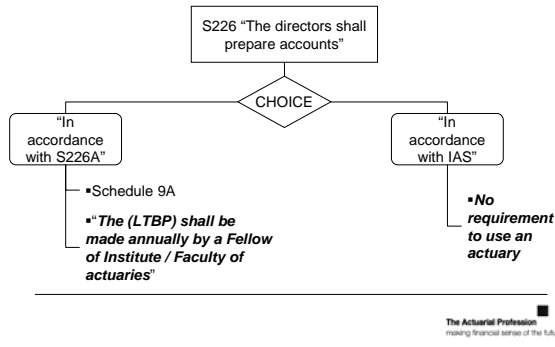
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Findings from published IAS details – actuarial issues

- The majority of insurance business remains insurance business under IAS
- Contracts classified as Investment business
 - Loss of VIF (bancassurers)
 - Profit emerging later due to more restrictive DAC & new DIL rules

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GN 7 – Reminder Legislative framework



Status of Professional Guidance

- GN7: The Role of Actuaries in Relation to Financial Statements of Insurers and Insurance Groups writing Long-term Business
 - Recommended Practice
 - Introduces the term "Reporting actuary"
- What is the right way forward for the Profession to develop GN 7?
 - Delete it?
 - Retain it for life insurers reporting under UK GAAP only?
 - Replace it with strengthened educational material relevant to financial reporting?

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Status of Professional Guidance - IAA

- The International Actuarial Association is preparing Practice Guidelines for IAS reporting
 - Ranked as "Educational material"
- Arguments against preparing guidance
 - Where there is no obligation to use an actuary, any constraint on actuarial practice that does not apply equally to other professionals makes actuaries less competitive
 - "It is the duty of the Auditor to assess compliance with IAS"
- Arguments for preparing guidance
 - Potential to enhance the influence of actuarial practice

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Appendix: List of topics covered by IAA
Practice guidelines

- Topics covered
 - Actuarial Practice
 - Current Estimates
 - Measurement of Investment and Service Contracts
 - Glossary
 - Liability Adequacy Testing
 - Classification of Contracts
 - Discretionary participation features
 - Change in accounting policy

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