The Actuarial Profession making thand a sense of the future

CILA – Accounting issues update 3 May 2006

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Topics for today

- FRS27
- IFRS
- EEV ANW aspects
- 2005 year end experience

The Asian III Protocology modes from the test

FRS27 - NP VIF "4(d) an amount may be recognised for the present value of future profits on non-participating business written in a with-profits fund it. (i) - (no issue) (i) - (no issue) (i) - (ho determination of the realistic liabilities in that with-profits fund takes account, directly or indirectly, of this value;" Most companies include the VIF. Various justifications: (i) VIF included directly in liabilities (i) charges against asset shares argument (i) "general" argument (ii) RCR/LTICR often deducted at face value for convenience

FRS27 – SH transfers

"4(a) liabilities ... shall be ... the realistic value of liabilities adjusted to exclude the shareholders share of projected future bonuses;

- adjustment needed as future (internal) transfers are not • a liability outside the company
- needs to come from stochastic model no bonus scenarios mean no transfers
- same may apply where other transfers made eg UWP charges transferred outside WP fund

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FRS27/17 - pension deficits

- Issues with pensioner mortality assumptions
- Consistency with life office pensions in payment Pension scheme actuaries often advising more .
- optimistic mortality than best estimate on Peak 2 basis
- Difficult for directors to justify?
- Also: deferred tax on deficit care needed to apply **BLAGAB** proportion

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FRS27 - capital position statement

Reviewed 6* large insurance companies' capital position statements

- Typical number of pages were 3 for notes and 2 for tables 2 of the 6 companies included a table analysing movement in available capital
- 4 of the 6 companies included numeric figures for regulatory capital requirement
- Also:
- Issues with WPICC being a capital requirement in reconciling from FRS27 accounts to FSA returns
- Presentation issues with subsidiaries held by shareholder's fund

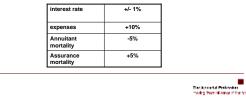
* Aviva, Friends Provident, HBOS, Legal & General, Prudential and Standard Life

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Reviewed the same 6 large insurance companies risk disclosures

- Wide variation in approaches from "economical" to comprehensive
- Number of pages for risk disclosure were in the range of 3-11
- 2 out of 6 companies included numeric sensitivity analysis on profit and loss and shareholder equity



IFRS issues

- Phase I pretty settled down now
- Same issues on disclose as for FRS27 wide range of level of detail
- DAC and DIL settled down
- Some classification issues within multi-national . groups
 - product classed as Insurance by one territory and Investment by another
 - each can be consistent with local practice
- General (lack of) usefulness of IFRS accounts

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EEV issues - ANW aspects

EEV Principle 4 is very brief giving rise to several issues:

- strict regulatory net assets or accounting net assets? . territories where there is no concept of FSA Return or Bluebook
- treatment of sub-debt and other innovative capital
- treatment of group debt and inter-company loans
- treatment of goodwill .
- → More detailed guidance would be useful

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2005 year end experience - 1

- generally difficult on FRS27/IFRS first time round
- many companies did not appreciate the extent of the changes
- often little sign of formal "Reporting Actuary" involvement as per GN7

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2005 year end experience - 1

- Integration of different sets of results
- Demonstrating compliance with various sources of guidance
- Accounts timetable running ahead of FSA timetable
- Materiality

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