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CILA – Accounting issues update

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Topics for today

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

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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 if:

(i) - [no issue]
(ii) - [no issue]
(iii) - the 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:**
  - **VIF included directly in liabilities**
  - **charges against asset shares argument**
  - **"general" argument**
- **RCR/LTICR often deducted at face value for convenience**

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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

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

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

FRS27 – approach to risk disclosures

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 typically being 8 pages
- 2 out of 6 companies included numeric sensitivity analysis on profit and loss and shareholder equity

interest rate	+/- 1%
expenses	+10%
Annuitant mortality	-5%
Assurance mortality	+5%

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

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

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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