The Actuarial Profession

making financial sense of the future

Life Financial Reporting Metrics Workshop

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Statutory valuation to multiple metrics

24 April 2012

Multiple Metrics

- What do we mean by Metrics?
- Room for one more 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

AGENDA

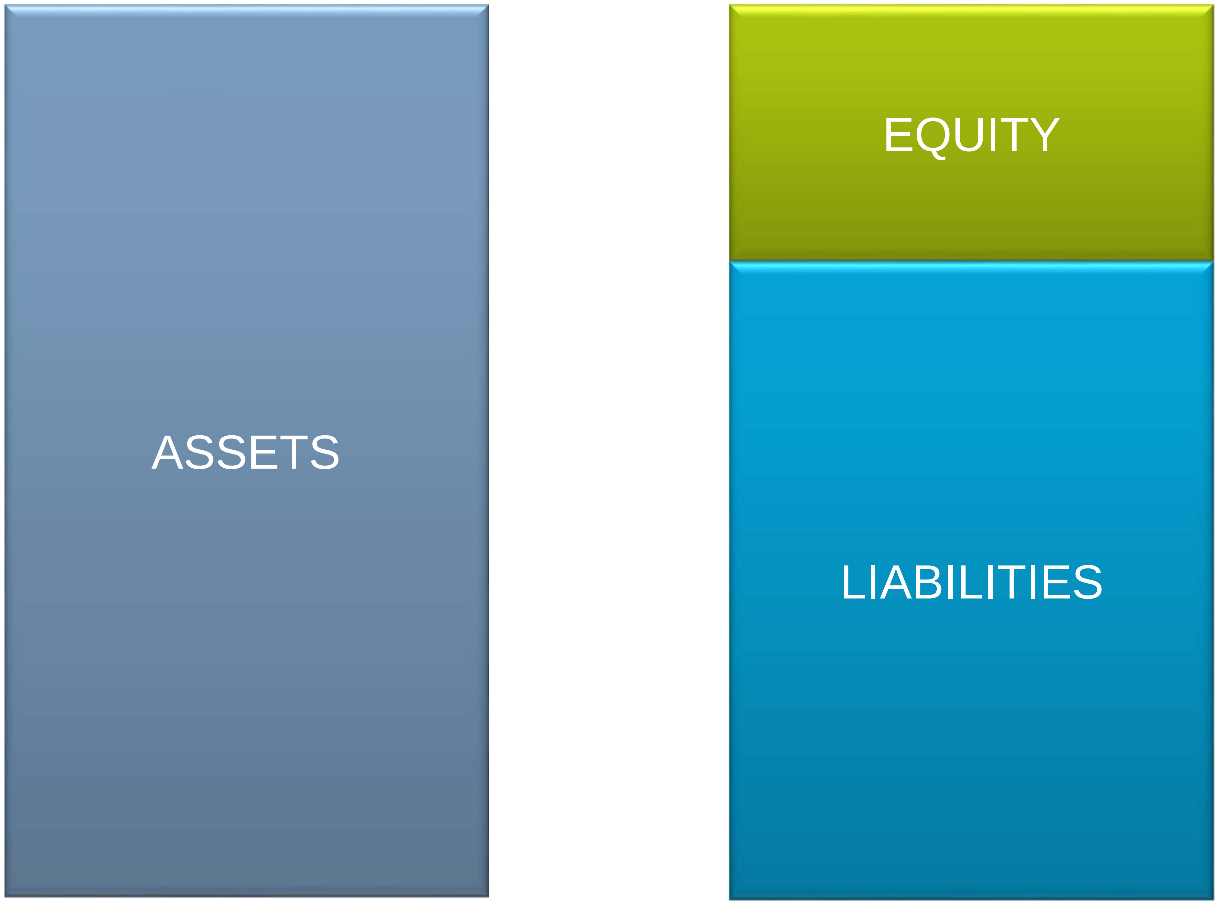
- Who are the stakeholders and what are there needs?
- How do we place a value on insurance company?
- How does this value relate to the needs of the stakeholders?

Stakeholders Needs

- Policyholders / Regulators
- - Security …will my claim be paid in full and on time even if conditions become difficult for the insurer?
- Shareholders (Analysts)
- - Profit … what return can I expect to make on my capital and when can I expect to get it?
- Employees / Management
- - Balancing Act …need to keep both parties happy!

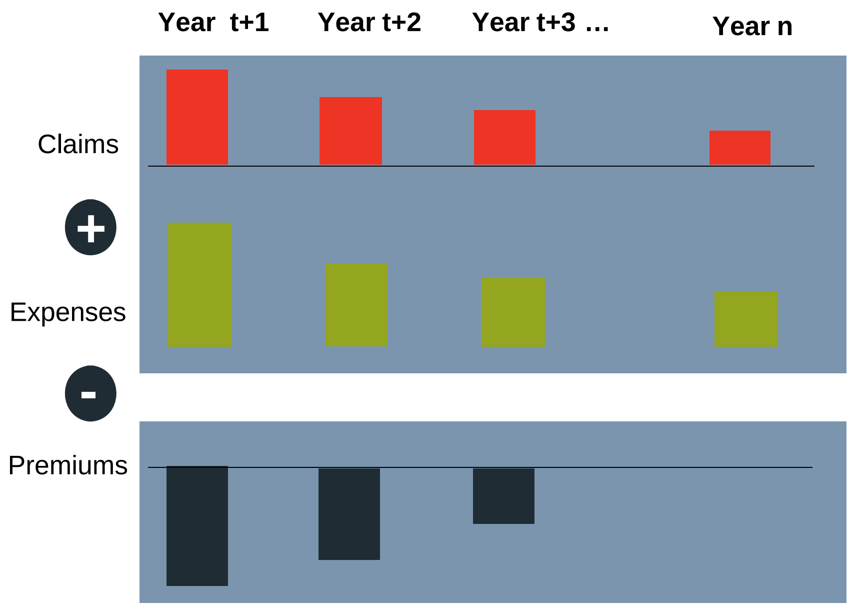
Note that as well as existing stakeholders financial reporting is also used by potential future stakeholders!!

Life Insurance Valuation: Overview



Life Insurance Valuation: Liabilities

- Allowance for risk depends on purpose of valuation



- PV of liability cashflows represents a best estimate of the future liability

Recap on certainty equivalent approach: Why we discount liabilities at the risk free rate

7% →

	Day 1	One year on
Assets	100	107
Liabilities	(80)	(84)
Capital	20	23

← 15%

5% →

	Day 1	One year on
Assets	100	105
Liabilities	(80)	(84)
Capital	20	21

← 5%

A mathematical trick to get the right answer

Life Insurance Valuation: Assets

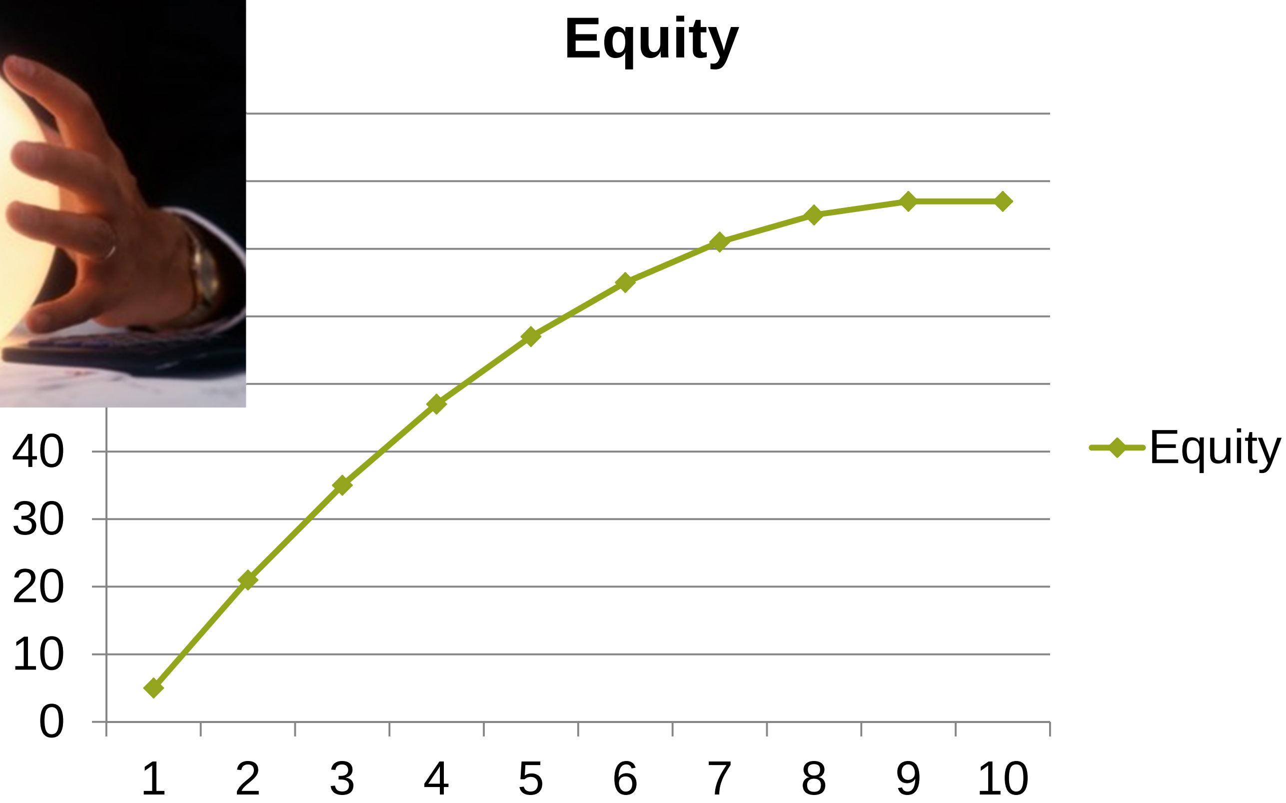
ASSETS

- Fair value: the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

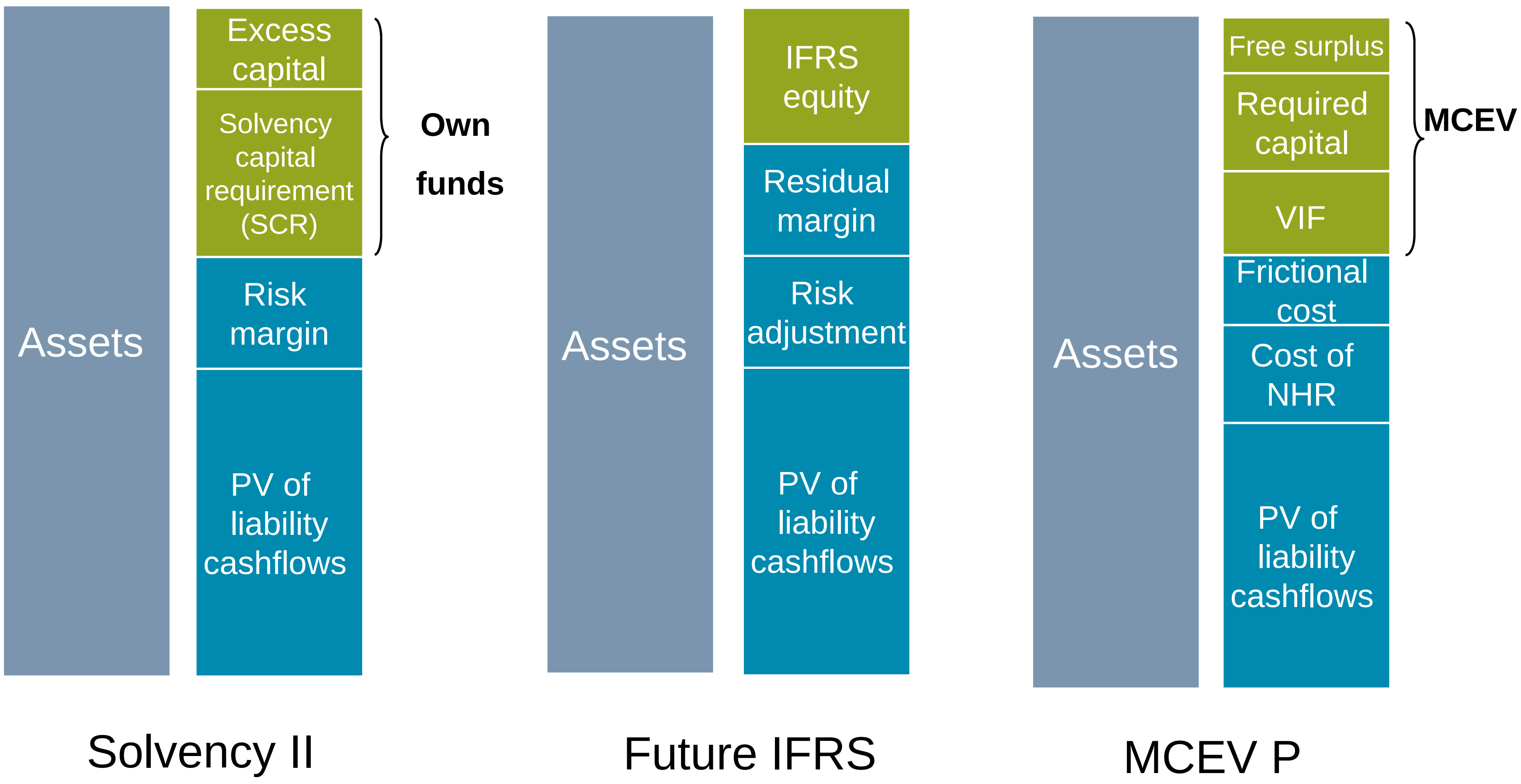
  Source: IFRS 13 Fair Value Measurement, IASB May 2011

- Amortised cost: an accumulation of cashflows at a locked-in interest rate, subject to impairment tests

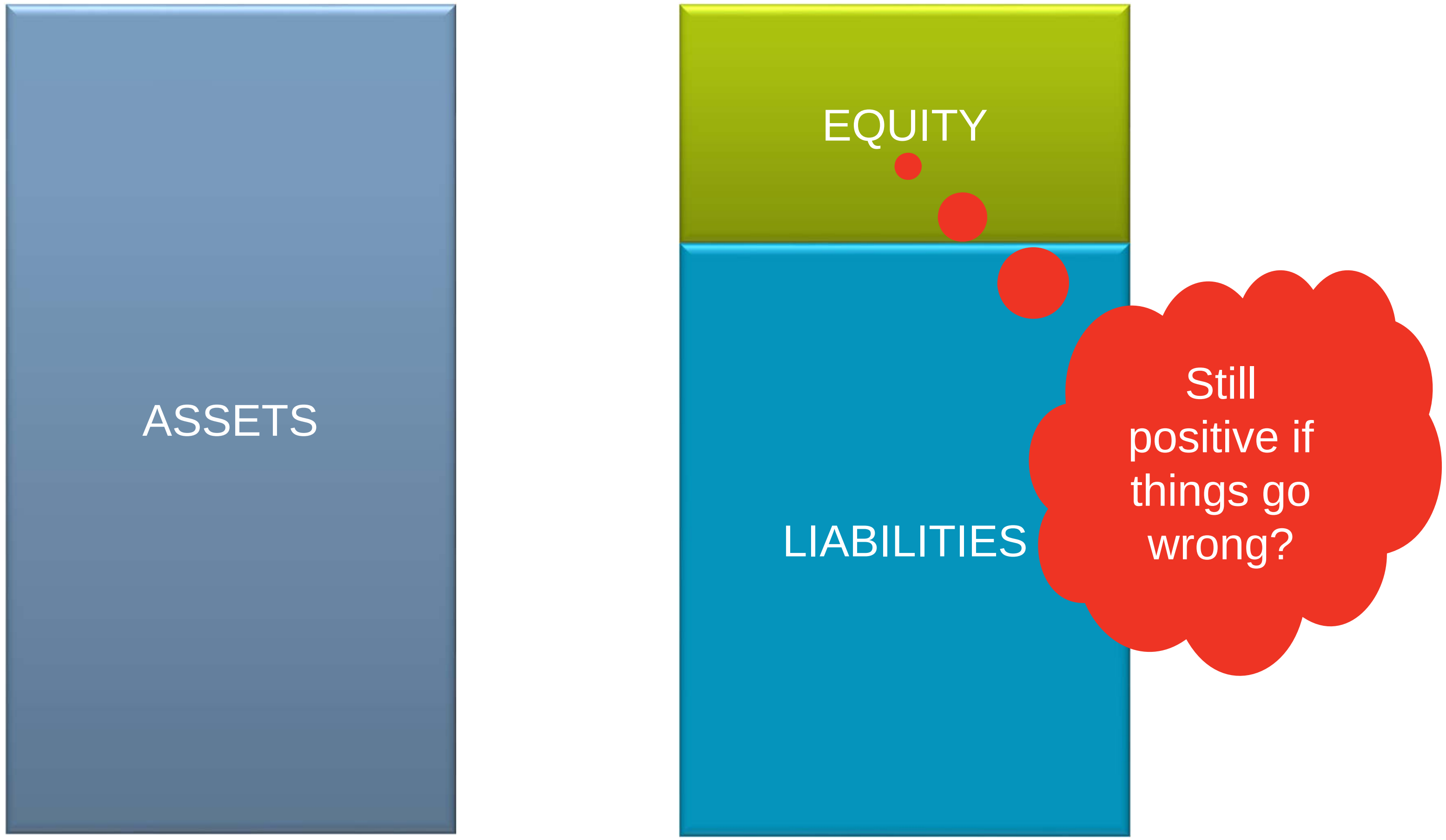
Projection Models: Is there a right answer?



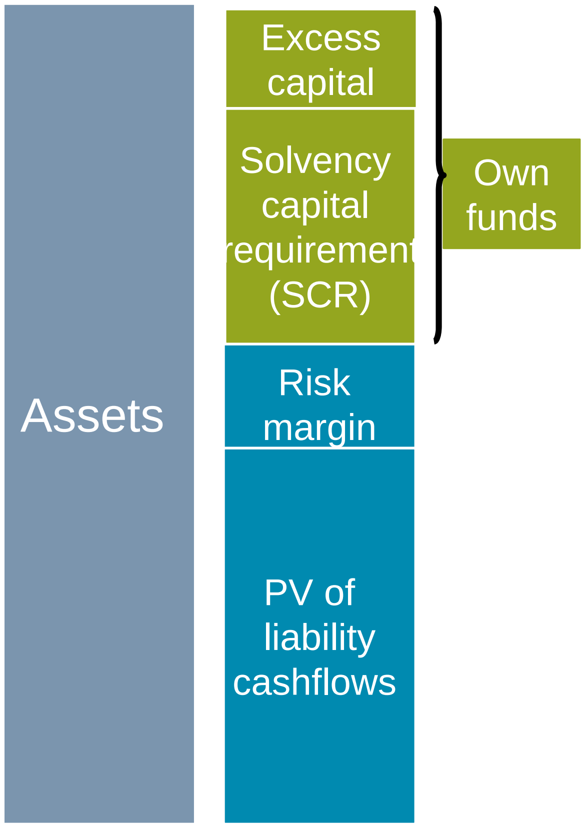
Balance Sheet: Various Reporting Purposes



Regulatory Valuation

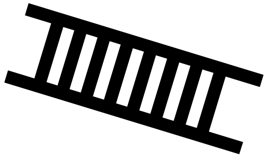


Balance Sheet: Solvency II



Solvency II

Level of "SCR" - level of capital that enables an institution to absorb significant unforeseen losses and gives reasonable assurance to policyholders and beneficiaries; 99.5% VaR over 1-year

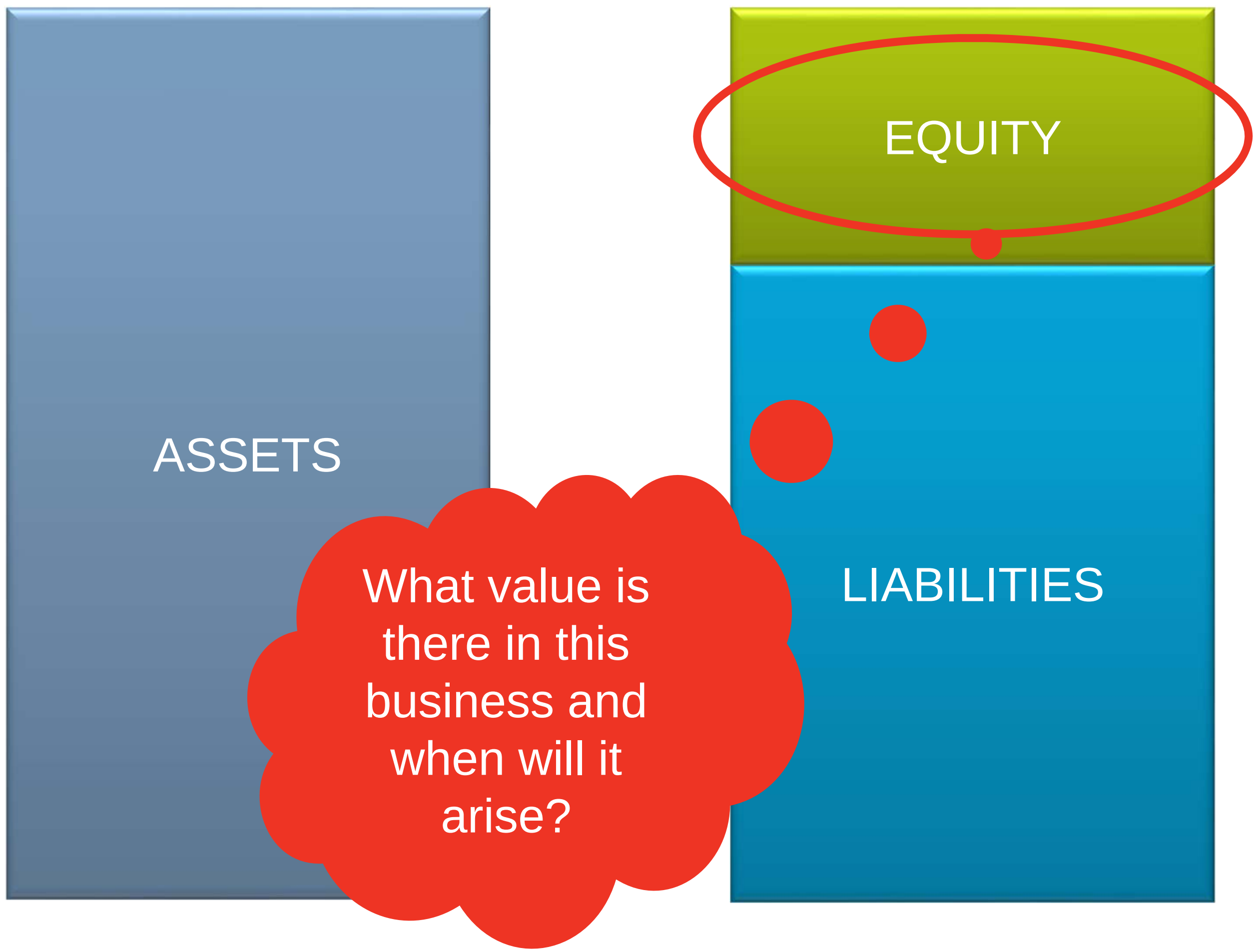


Ladder of Intervention

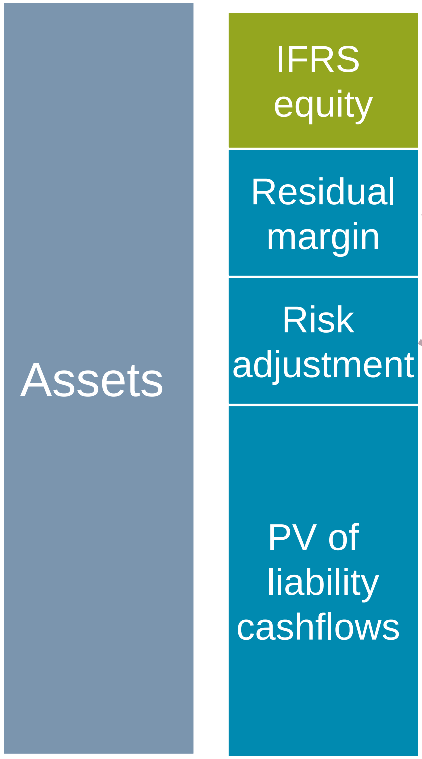
Level of "MCR" (Minimum Capital Requirement) A safety net that reflects a level of capital below which ultimate supervisory action would be triggered; 85% VaR over 1 year

Technical Provisions (TP) – amounts set aside in order for an insurer to fulfil its obligations towards policyholders and other beneficiaries;

Accounting View



Balance Sheet: Future IFRS

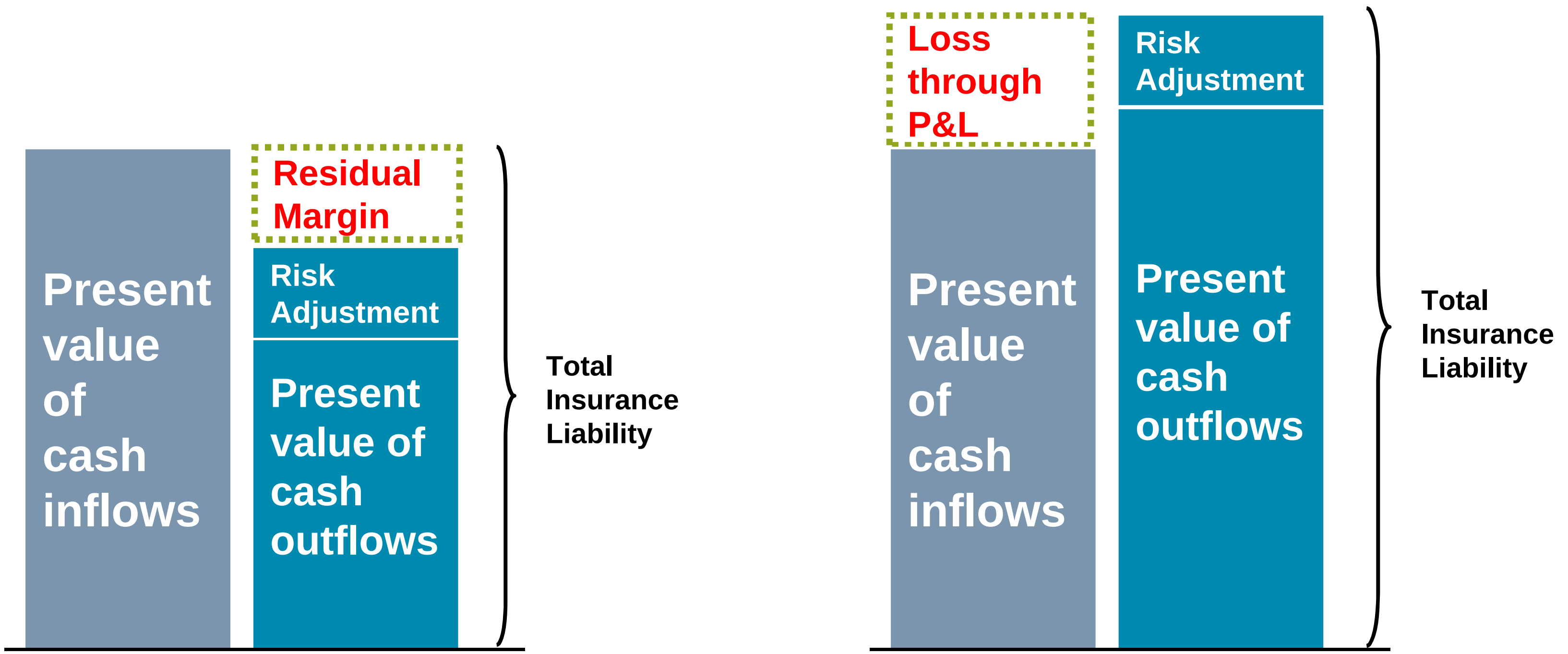


- Designed to eliminate gains at inception.
- Look at in more detail next

- To capture effect of uncertainty about amount and timing of cashflows

Future IFRS

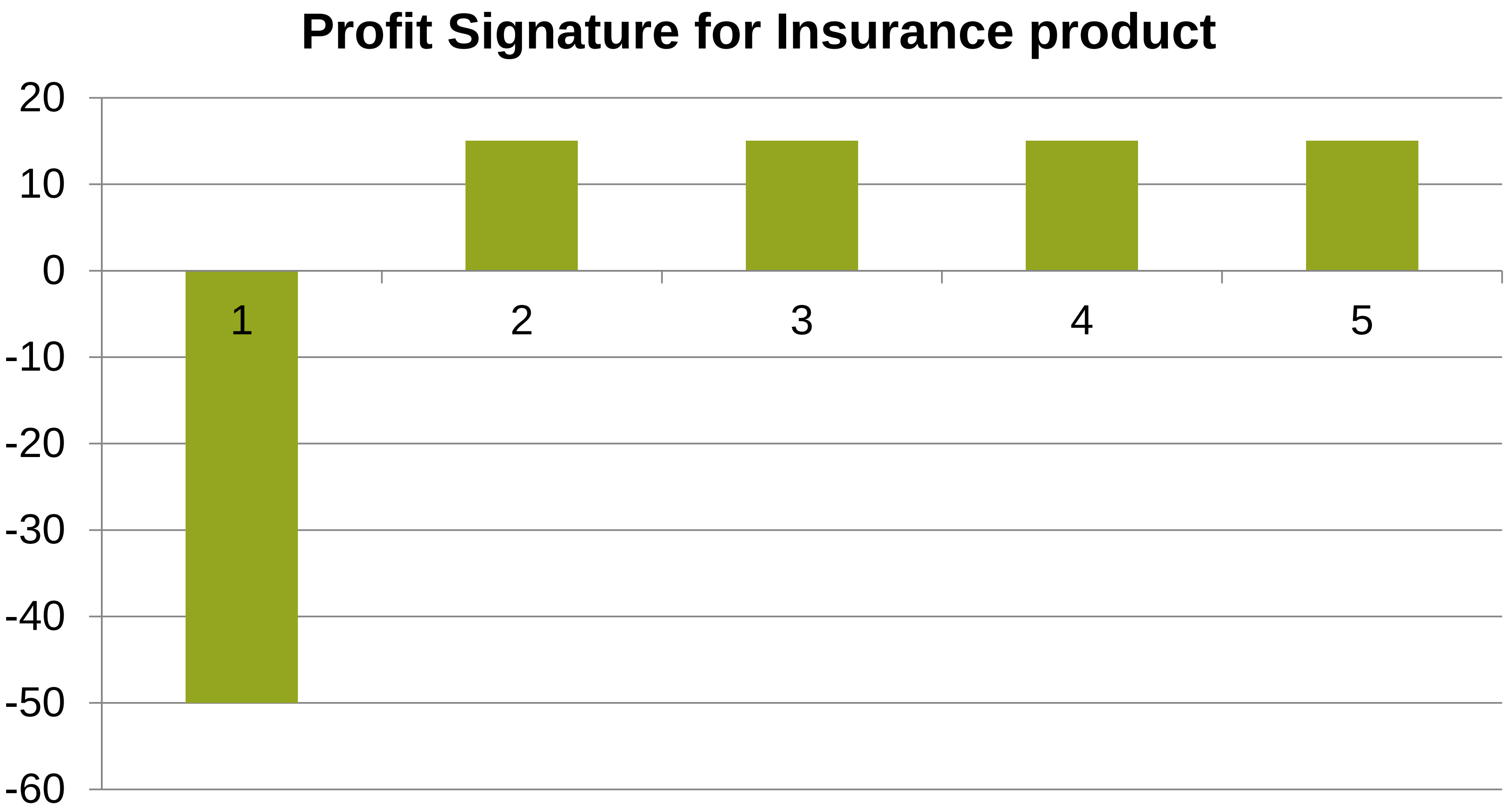
Future IFRS: The Residual Margin



Profit generating
Insurance contract

Loss generating
Insurance contract

IFRS: Impact of New Business

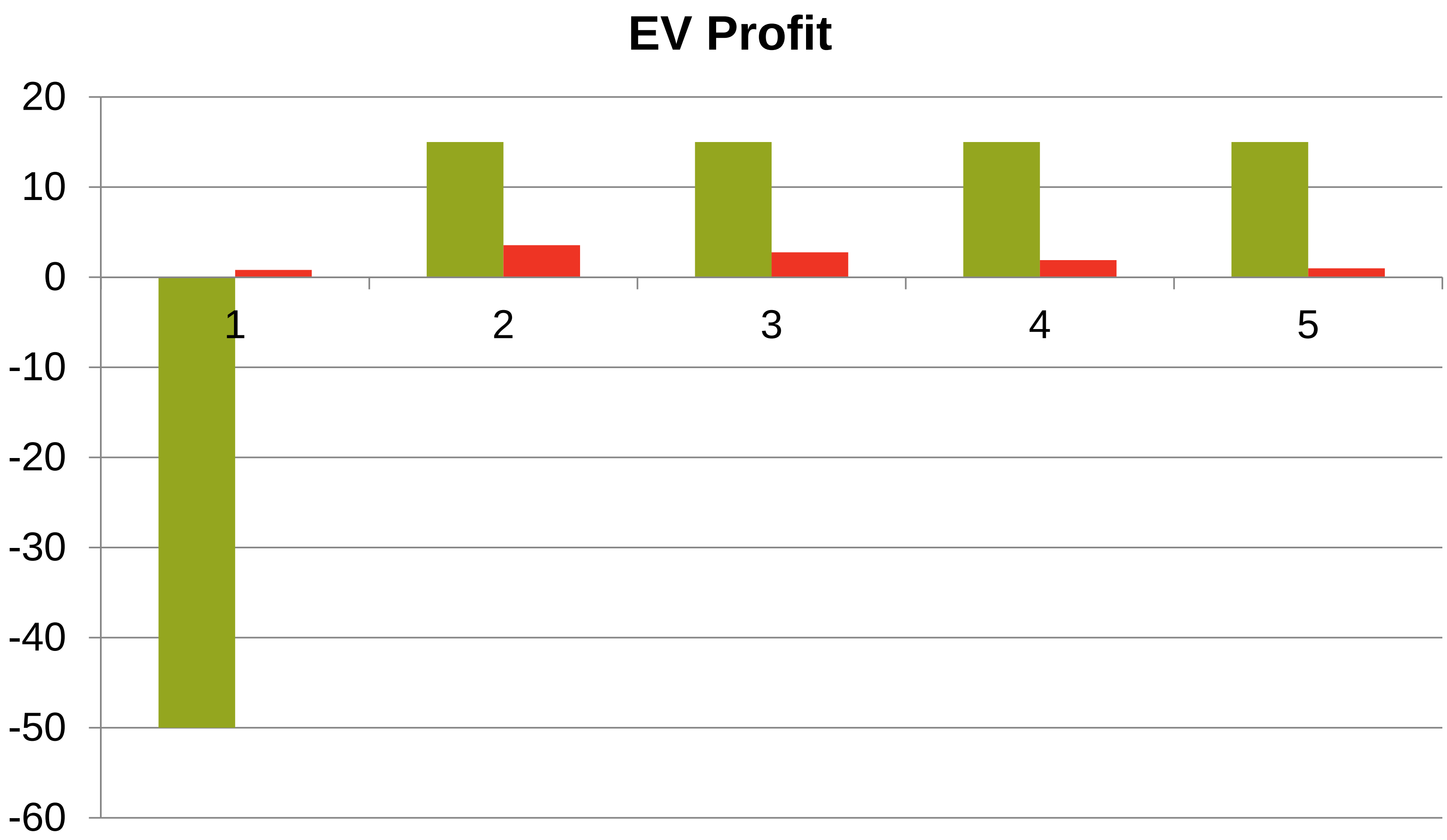


Supplementary Reporting

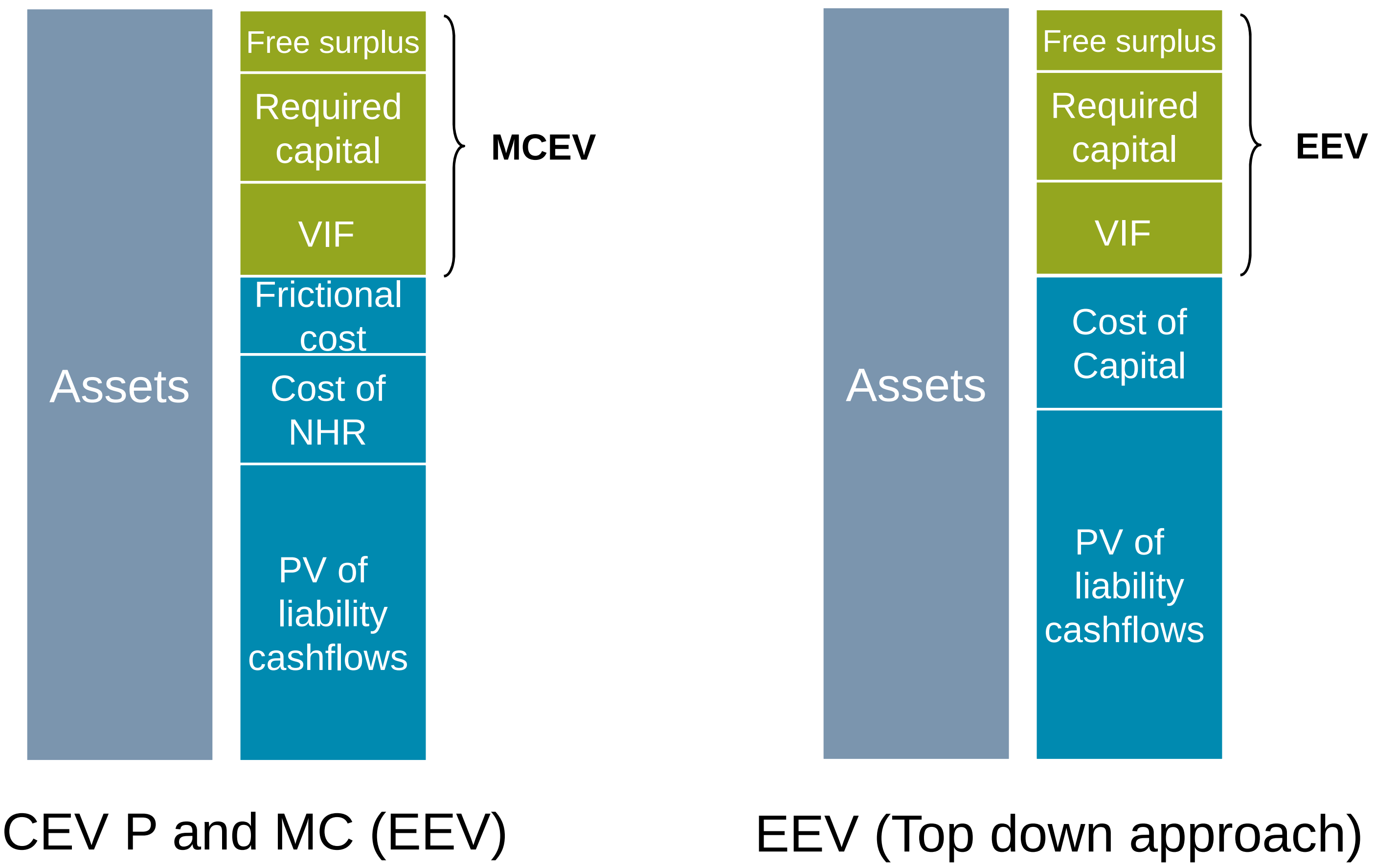
- What do we mean by supplementary reporting?
  – Other metrics disclosed in addition to Core Accounts to give further information
  – Examples are EV (incl. Value of New Business), Cash generation, IRRs, ROC & payback periods
- Do we still need this post Future IFRS and Solvency II?

  We believe Shareholders and Management will still require this, in particular to address:
  – Address value of new business issue which still exists
  – Provide a realistic measure of shareholder value
  – Address question of “when” capital will be returned

Profit Signature: Change in EV



Balance Sheet: Embedded Values



Other Metrics

- Value of New Business
- Analysis of Movement of EV and Free Surplus
- Cash flow
- Payback period
- Internal Rate of Return
- Implied Discount Rate
- Return on Capital

Summary

- We continue to have Accounting and Reserving Metrics required – these are changing but the purpose is the same
- We are likely to continue to have supplementary reporting in addition to this to pick up the specific issues of valuing insurance products
- There has been a sustained period of growing demand for information and an increasing ability to meet it. Is this likely to continue?

Conclusions

- There is likely to continue to be a range of metrics used in order to meet regulatory requirements and stakeholder needs.
- This can be a positive – giving us a good breadth and depth of understanding of our business and ability to make good decisions.
- …Or a negative – information overload and lack of understanding or clarity.

- Key is how we communicate these metrics!

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.