

Contemporary Issues in Life Insurance

Life Insurance Practice Committee

IAAust BIENNIAL CONVENTION 2003



Contemporary issues in Life Insurance

- Regulation
- Economy
- Actuarial/Accounting
- Competition
- Trends

Regulation

- **Life Act Review**
- **APRA/ASIC**
- **Tax**
- **IASB**
- **IAIS**

Regulation

Life Act Review

- **Background of HH, etc**
- **Significant delay in timing**
- **Minor review or major re-write?**
 - **Change in capital requirements?**
 - **Change to LIASB?**
- **Opportunities?**

Regulation APRA/ASIC

- **APRA**
 - Changes since HIH
- **ASIC**
 - FSRA (issues for ASIC as well as industry!)

Regulation Tax

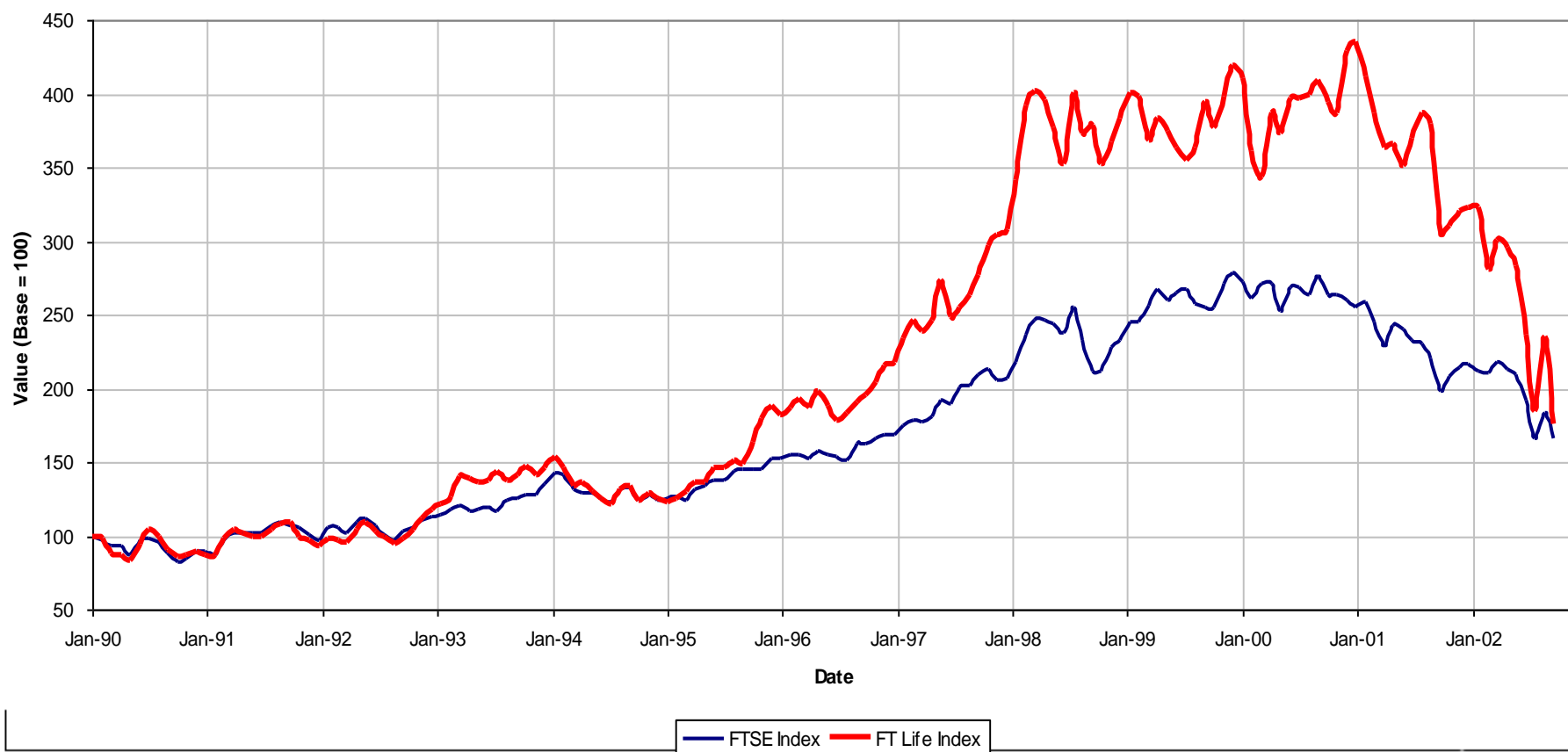
- Ordinary business
- Consolidation
- Cross guarantees
 - *Greg, what is this?*
- Implications of 30 June 2005
- FITB
 - covered later

Economy/Environment

- Investment performance
- Global economy & outlook
- Profitability
- Guarantees & options

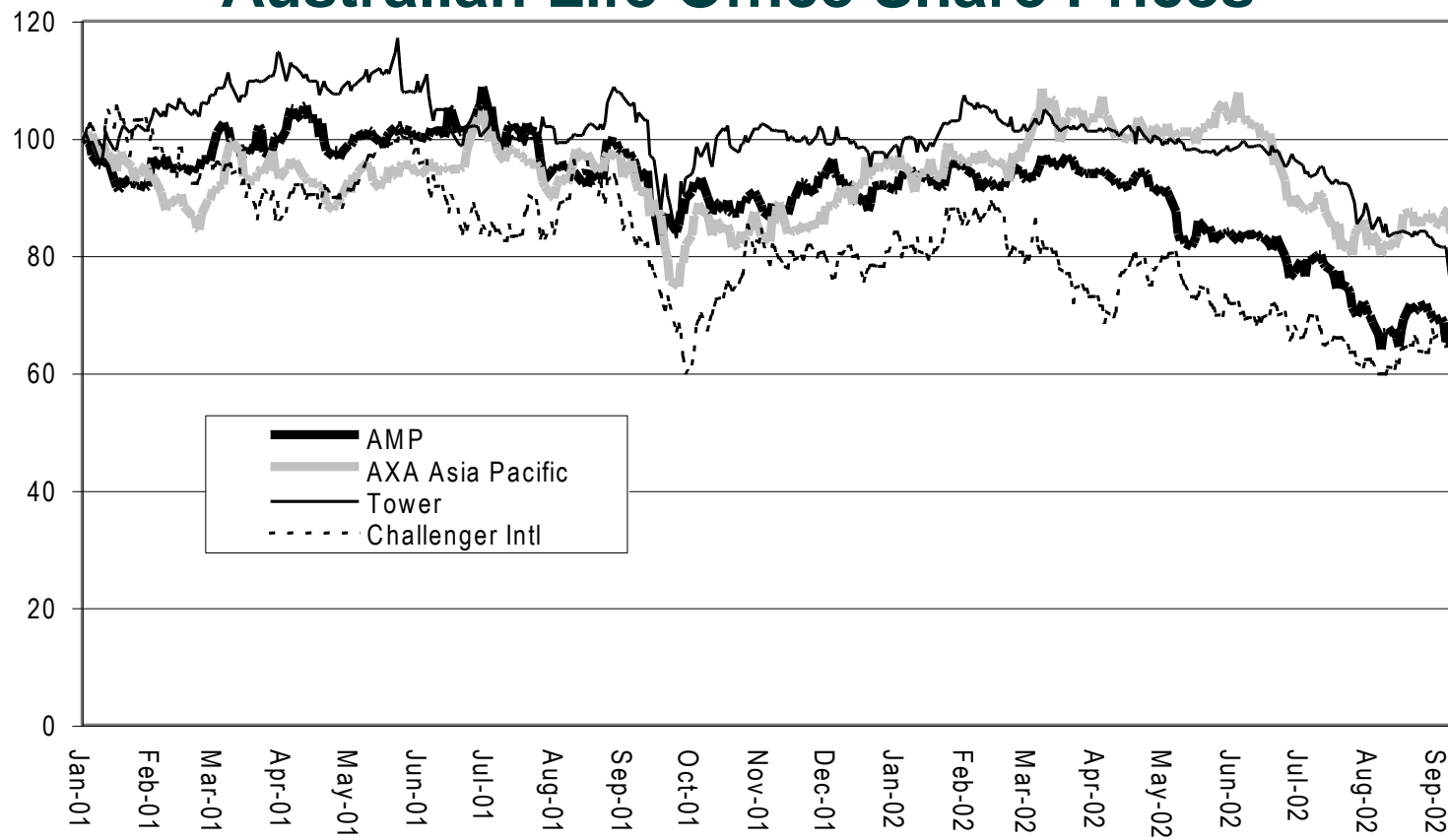
Economy/Environment Investment Performance

UK Life Index vs FTSE



Economy/Environment Investment Performance

Australian Life Office Share Prices



Actuarial/Accounting Issues

- **LIASB standards**
- **International Accounting Standards**
- **Professional Standards & Guidance Notes**
- **Appointed Actuaries**
- **Financial economics**

Actuarial/Accounting Issues

LIASB standards

- **Discussion Notes**
 - asset quality
 - solvency assumptions (DI)
 - structured settlements & substandard lives
- **Asymmetrical risks in policy liabilities (AS1.03)**
- **Management capital (AS6.02)**

Actuarial/Accounting Issues

IAS – Comparison of Methods

	Fair Value	MoS	EV
Base assumptions	Best estimate	Best estimate	Best estimate
Margin for risk	MVM in cash flows	None – but planned profit	In discount rate
Earnings rate	Return on replicating portfolio	Return on assets held	Return on assets held
Discount rate	As earnings	As earnings	Risk margin
Options & guarantees	Recognised explicitly	Recognised explicitly (new)	Should be recognised

Actuarial/Accounting Issues

IAS – Sources of Profit

	Fair Value	MoS	EV
Expected Profit	Market value margins released	Profit margins released	EV x discount rate
Experience Profit	Actual v best estimate assumptions	Actual v best estimate assumptions	Actual v best estimate assumptions
Assumption Changes	Capitalised	Profit spread, loss capitalised	Capitalised
NB Profit?	Yes	No – spread into future	Yes

Actuarial/Accounting Issues

IAS Issues

- **Wide-ranging impact from 2005**
 - **IAS39 for investment**
 - **local GAAP for insurance**
 - **product classification**
 - **DAC**
 - **deferred tax**
- **Insurance Standard from 2007**
- **Business impact**
 - **profit volatility**
 - **international comparability?**

Competition

- **Distribution**
- **e-business**
- **Products**
- **Reinsurance**

Trends

- **Structural change / M&A**
- **Funds management**
- **Banks**
- **Genetics**
- **New products**
- **Product rationalisation**
- **Cost focus**

Trends

Current New Zealand Issues

- **GN5 Prudential Reserving**
 - under revision
- **1908 Life Act**
 - Law Commission review
- **Insurance working group**
 - actuaries and accountants
 - international accounting
- **IRD**
 - completed review of reserving bases