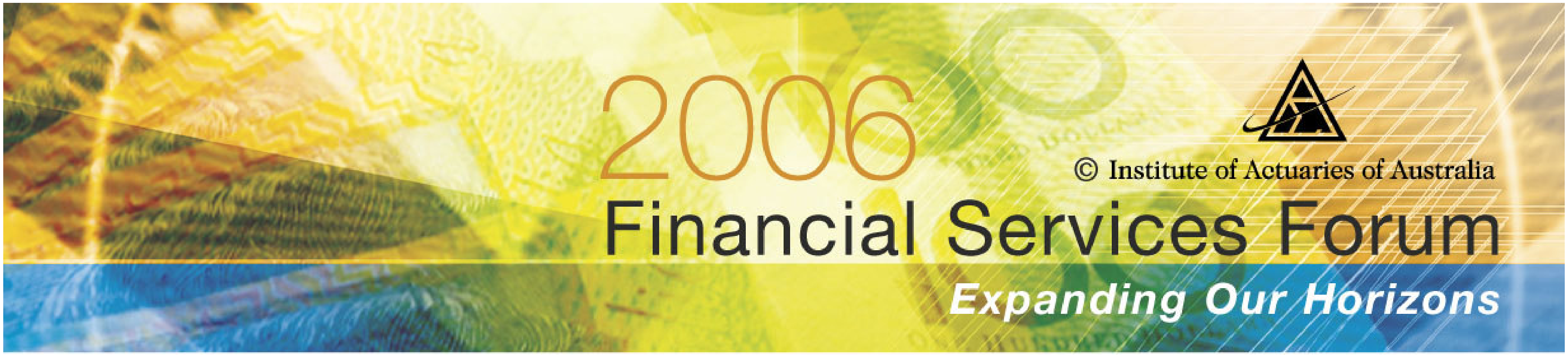


A Review of Market Practice of Disclosure under AIFRS

Jaimie Sach & Daniel Longden

Agenda

- Disclosures & Disclaimers
- Summary of Disclosure Changes
- Comparison of Market Practice
  - Sensitivities
  - Claims Development
  - Reinsurance Gains/Losses
  - Analysis of Profit & DAC
  - Impact of assumption changes
  - Adoption of IFRS

Disclosure & Disclaimers

- Focus on changed actuarial disclosures
- Source of market comparisons is:
  - Appendix 4E
  - Financial Statements
- Remember different companies have:
  - Different mix of business
  - Different levels of materiality
  - Different ownership - local or overseas

Summary of Disclosure Changes

		Insurance	Investment
Assumptions	14.1.1 (c)	Yes	No*
Reins Gains/Losses	14.1.1 (b)	Yes*	No
Policy Liability	14.1.1 (b)	Yes	No*
Assumptions changes	14.1.1 (d)	Yes	No*
Sensitivities	15.1.1 (c) i)	Yes*	No
Claims Development	15.1.1 (c) iii)	Yes*	No
Analysis of Profit	17.1 & 17.2	Yes	Yes

* IFRS requirements may be reduced from pre IFRS

Market Practice: Sensitivities

"A life insurer shall disclose information that helps users understand the amount, timing and uncertainty of future cash flows from life insurance contracts." [Section 15.1]

"Information about *insurance risk* (both before and after mitigation by reinsurance) including information about: -

i) the sensitivity of profit or loss and equity to changes in variables that have a material effect on them;" [Section 15.1.1 (c)]

Market Practice: Sensitivities

	Co. A	Co. B	Co. C	Co. D
Profit Period	Current	Current	Next	Current
Impact on	Year End Reserve	Year End Reserve	Cash Flows	Cash Flows
Gross/Net of Reinsurance	Yes	Yes	Net Only	Net Only
Equity	Yes	Yes	No	No
Asymmetry	No	Yes	No	No

Market Practice: Sensitivities

<table>
<tr><th>Risk</th><th>Co. A</th><th>Co. B</th><th>Co. C</th><th>Co. D</th></tr>
<tr><td>Mortality</td><td>+ 10%</td><td rowspan="2">+/- 10%</td><td rowspan="4">+/- 10%</td><td></td></tr>
<tr><td>Mortality (Ann)</td><td>+ 50%</td><td></td></tr>
<tr><td>Morbidity – LS</td><td>+20%</td><td rowspan="2">+/- 10%</td><td></td></tr>
<tr><td>Morbidity – DI</td><td>+20% incid
–20% term</td><td></td></tr>
<tr><td>Lapse</td><td>+10%</td><td>+/- 10%</td><td>+/- 10%</td><td>+/- 1%</td></tr>
<tr><td>Maint. Expense</td><td>+10%</td><td>+/- 10%</td><td>+/- 10%</td><td></td></tr>
<tr><td>Market Interest</td><td></td><td>+/- 1%</td><td></td><td>+/- 5% Eq
+/- 0.5% FI
+/- 5% F/X</td></tr>
<tr><td>Sales</td><td></td><td></td><td></td><td>+/- 5%</td></tr>
<tr><td>FUM</td><td></td><td></td><td></td><td>+/- 5%</td></tr>
</table>

Market Practice: Sensitivities

There are apparent differences in market practice covering:

1) Type of impact
2) Displaying gross/net of reinsurance impact
3) Impact on equity
4) Sensitivities shown
5) Granularity of sensitivities
6) Quantum of each sensitivity
7) Asymmetry of sensitivities

Market Practice: Sensitivities

Arguments for a 'cash-flow' approach: -

- indicates timing/uncertainty of cash flows in short term
- 'reserve' method may mislead by overstating impact by capitalising future impacts without allowing for actions available to management or understate by respreading through profit margins
- arguably consistent with GI reserving impact as change in GI reserve movement has immediate equity impact and relates to historic events.

Arguments for a 'reserve' approach: -

- indicates the impact of the actuaries assumptions on actual reported profit for the period
- other trading companies do not have to show sensitivity of current/future profits to experience

Market Practice: Sensitivities Discussion

- Do sensitivities assist readers?
- Should sensitivities be cash flow or year end reserve?
- Should sensitivities be standardised?
- Is Institute guidance desirable?

Market Practice: Claims Development

"Information about *insurance risk* (both before and after mitigation by reinsurance) including information about: -

iii) actual claims compared with previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years. A life insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year." [Section 15.1.1 (c)]

Market Practice: Claims Development

“ The claims development disclosures required by paragraph 15.1.1 (c) (iii) only applies to classes of business where claims are not typically resolved within one year. For many life insurance products this disclosure would normally not be required. Furthermore, claims development disclosures would not normally be needed for annuity contract, for example, because each periodic payment arises, in effect, from a separate claim about which there is no uncertainty.” [Section 15.1.2]

Market Practice: Claims Development

- Products where disclosure may be required:
  - Disability Income/GSC business
  - Retail/Group TPD
- No company showed claims development for life products (2 companies showed claims development for GI)
- Possible reasons for non-disclosure: -
  - Wording of legislation
  - Disability income claims are like annuity claims - only materialise on survival/continued sickness and are immediately settled
  - Materiality

Market Practice: Reinsurance Gains/Losses

"A life insurer shall disclose information that helps users understand the amount, timing and uncertainty of future cash flows from life insurance contracts." [Section 15.1]

"Furthermore, if the life insurer is a cedant, it shall disclose: -

i) gains and losses recognised in profit or loss at the time of buying reinsurance; and

ii) if the cedant defers and amortises gains and losses arising from reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period;" [Section 14.1.1 (b)]

Market Practice: Reins Gains/Losses

- Initially expected that companies would need to show reinsurance profit margins to satisfy this requirement
- No company disclosed separate reinsurance profit margins
- 3 companies showed separate reinsurance liabilities: 1 company did not show any reinsurance liabilities
- Possible reasons for non-disclosure of reinsurance profit margins: -
  - Profit or loss at issue likely to relate to financial reinsurance only
  - Materiality
  - Total reinsured liabilities satisfy the requirement

Market Practice: Analysis of Profit & DAC

	Co. A	Co. B	Co. C	Co. D
AoP: Split Investment/ Insurance?	No	Yes	Yes	Yes
AoP: Sources?	Yes	Yes	Insurance Only	Yes
DAC Split?	No	< 12 mths/ >12 mths	Current/Non-Current	No

Market Practice: Assumption Changes

" When applying paragraphs 14.1.1(c) and 14.1.1(d) and disclosing the process used to determine assumptions, quantified disclosure of assumptions and the effect of changes in assumptions the life insurer would normally show the impact of changes in assumptions on future profit margins and life insurance liabilities." [Section 14.1.5]

Market Practice: Assumption Changes

	Co. A	Co. B	Co. C	Co. D
Aggregate change in assumptions (ie. basis 1 vs. basis 2)	Yes	Yes	Yes	Yes
Detailed impact split by key assumption changes	Yes	No	Yes	No

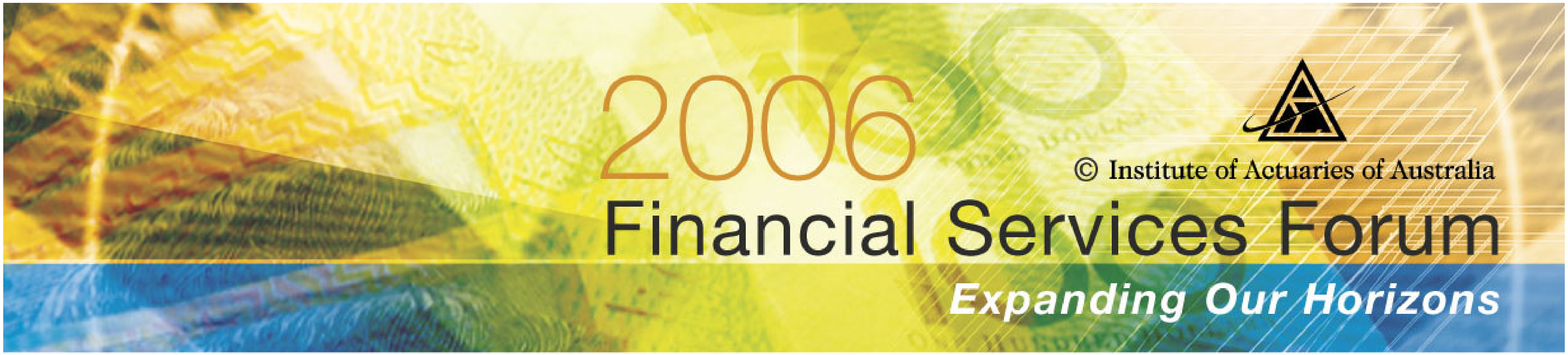
One company included this information with economic value disclosures.

Market Practice: Disclosure around Transition to IFRS

	Co. A	Co. B	Co. C	Co. D
Balance Sheet	No	No	Yes	No
Profit & Loss	No	No	Yes	No
Retained Earnings	Yes	Yes	Yes	Yes
NPAT	Yes	No	Yes	Yes
Components	Yes	Yes	Yes	Yes

Open Discussion

- Is inter-company comparison possible?
- Do the disclosure requirements assist with inter-company comparison?
- Should disclosures be more standardised?
- Is Institute guidance required to assist companies?



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