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Agenda paper 2C

# Insurance Contracts ED – User Feedback



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# High Level Thoughts

## What I Like!

- A global standard for insurance contracts?
- Similar treatment for life and non-life
- Insurance liabilities close to 'economic measurement' – if fair values used, accounting mismatch reduced
- Time value of options & guarantees included
- Liabilities measured on current conditions not those 'locked in' at policy inception
- Explicit margins shown on B/S, not hidden margins carried within reserves for prudential or regulatory reasons
- Policyholders reasonable expectations carried in DPF liabilities
- The reconciliation of contract balances will unearth true economic mismatching
- Residual margin will mandate 'vintage' analysis

## Things I would Like to See...

- Field testing – without it user feedback will be less effective – Is June 2011 credible?
- All expenses included in liability cash flows
- Prescriptive liability based approach to discount rate/ liquidity premiums
- A prescribed and consistent approach to the 'risk adjustment'
- Systematic release of residual margin/ risk adj. based on 'work done and risks borne'
- Re-calibration of residual margin for changes in non-economic assumptions
- Re-think on transitional arrangements

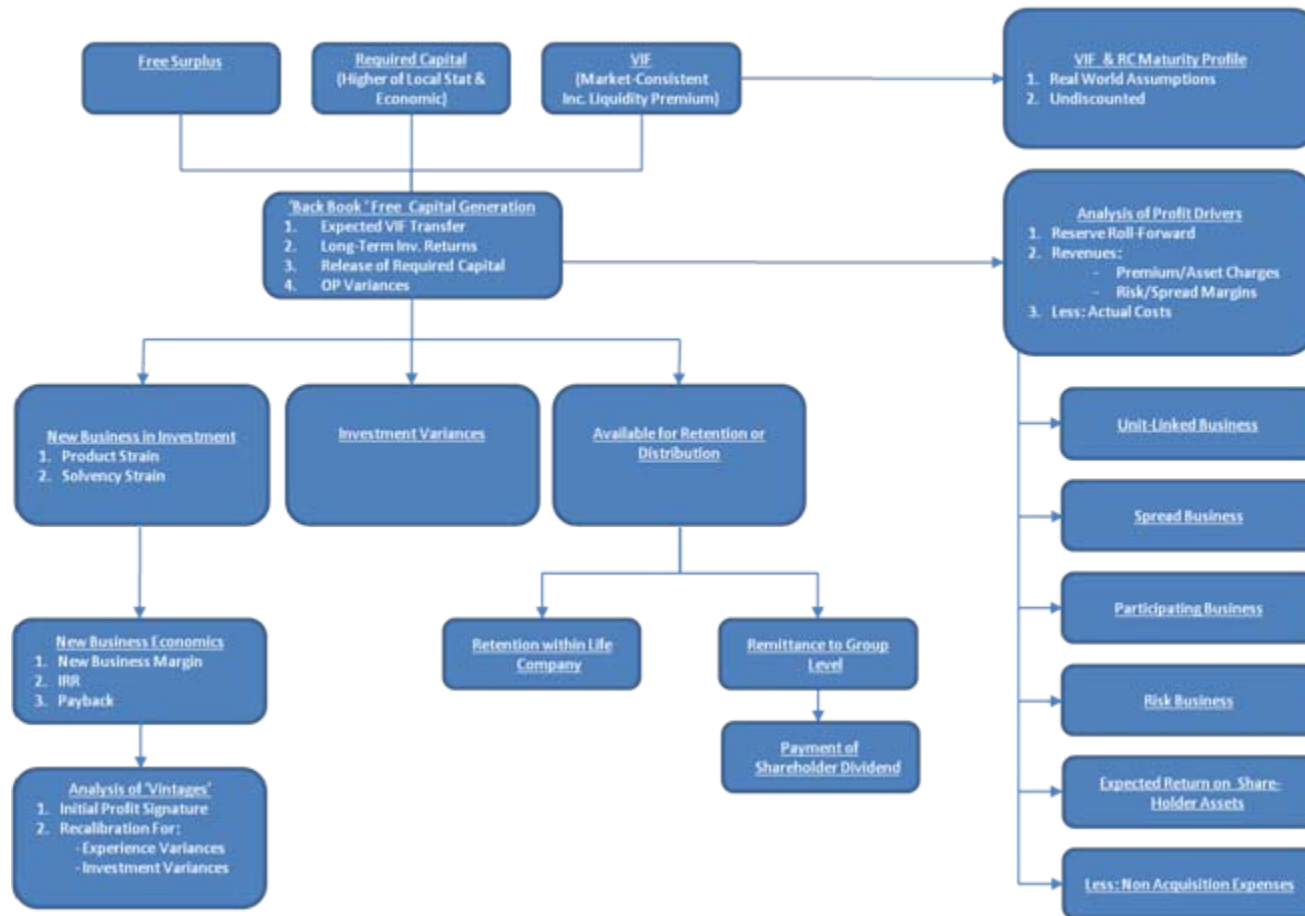
## Issues for the Companies

- Lack of linkage between EV, IFRS and Solvency II – sector COE will remain high
- Don't take the 'cost option' – interest rates locked in = no cost of durational mismatch
- Volatility is OK with an operating profit – users look at NAV not net income/ OCI
- Work with users on a template for the supplementary disclosures



# Where European Investors are Going...

## RATIONALISING A LIFE COMPANY'S REPORTING



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