



cutting through complexity™

The New World for Insurance – business perspectives on Phase II

Jeremy Hoon, KPMG in Singapore

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monitoring of insurance markets*

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Bangkok, Thailand



Agenda



- Where are we now?



- What does this mean for the business?



- Question and answer

Scope

In Scope

Insurance contracts are ...Contracts that an entity issues that **transfer** significant insurance risk, including:

Financial Instruments
Containing DPFs

Financial Guarantee
Contracts

...that are currently
accounted for as
insurance contracts

Out of Scope

Contracts that an entity issues that **do not transfer** significant insurance risk, including:

Financial Instruments
Without DPFs

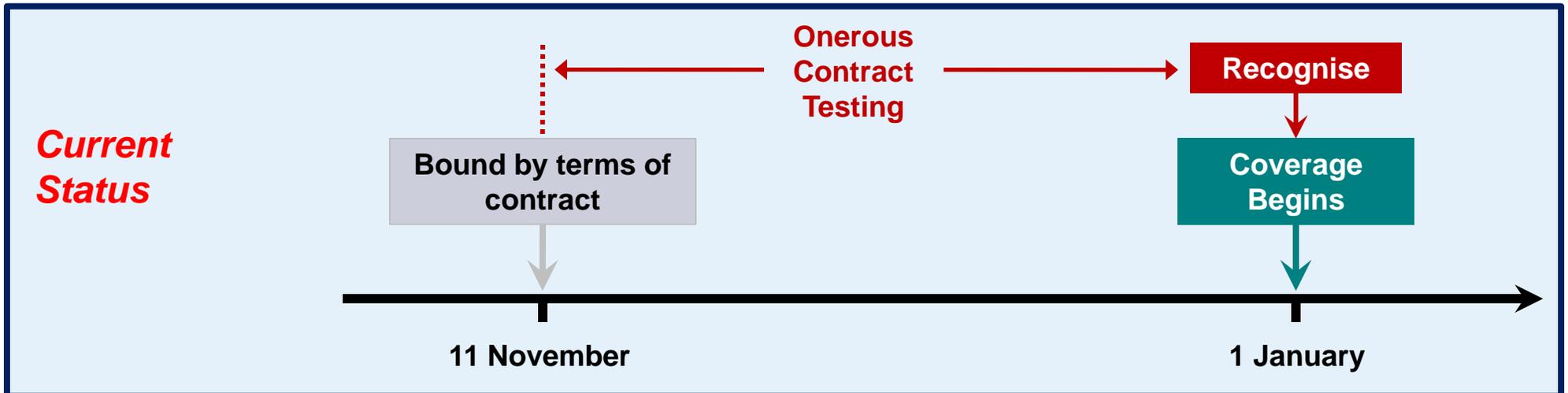
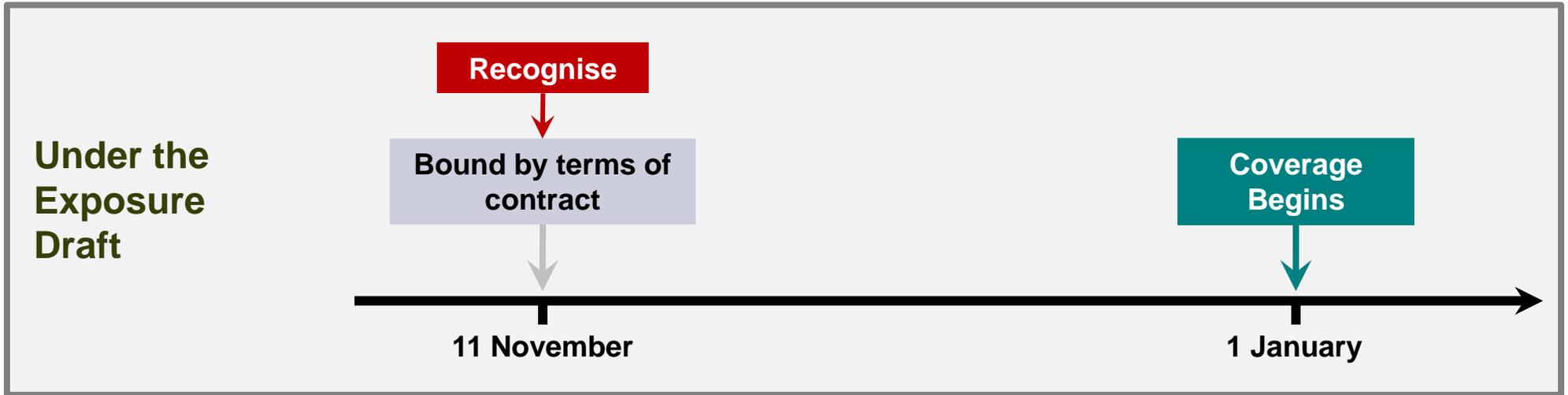
Service Contracts

Financial Guarantee
Contracts

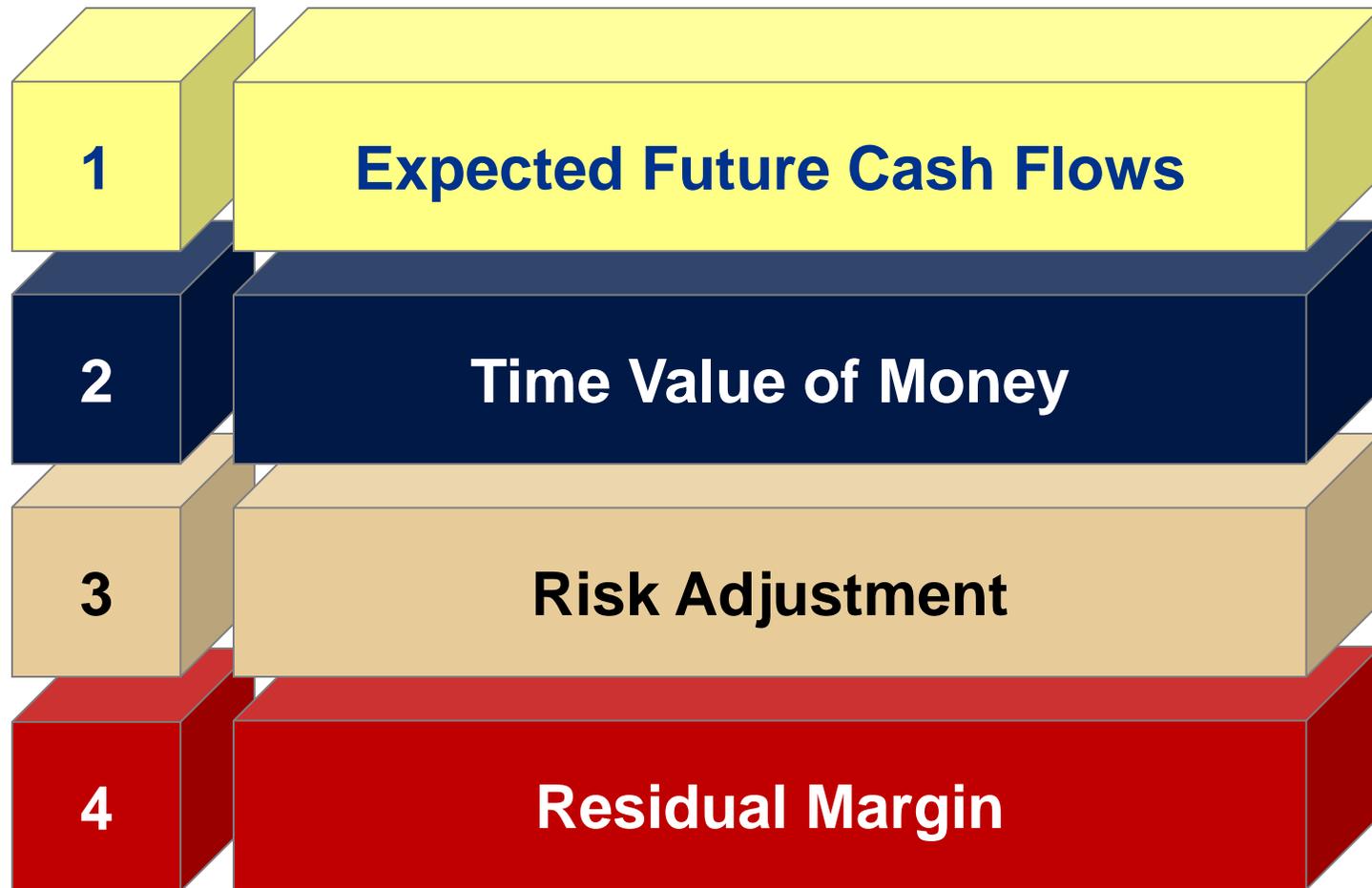
...not currently
accounted for as
insurance contracts

Contracts specifically
excluded, e.g. fixed fee
service contracts

Recognition



Measurement Model



Presentation and Disclosure

Income Statement

- Summarised Margin Approach
- More Familiar Premiums and Claims Approach
- Several approaches are under consideration

General Disclosures

- Mixture of Quantitative and Narrative Disclosures
- Extensive Insurance Risk and Risk Management Disclosures
- Incremental to existing IFRS 4 requirements

Disclosures vs. Other Proposed Standards

- Alignment of disclosure requirements with Revenue Recognition and Leases proposals
- Tabular presentation mandated for roll-forward analysis

Timeline to a Published IFRS for Insurance

Topics expected for discussion in future deliberations

Unbundling	Short-duration contracts
Reinsurance	Unlocking the residual margin
Presentation and the use of other comprehensive income	Level of aggregation-risk adjustment and residual margin
Financial instruments with DPF	Transition and effective dates
Consideration of due process	Disclosures

Final draft - towards end of **1H of 2012** or later

A final IASB standard is likely in late 2012 (earliest) or in 2013

FASB is expected to release an exposure draft in **1H of 2012**

The IASB and FASB will continue to discuss a number of topics in 1H of 2012

After the Boards have re-deliberated all of these topics, the IASB will be considering whether a re-exposure will be necessary based on the changes made to the proposals in the IASB's exposure draft

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What did we do?



What did we find ?

“ A current/current approach will allow us to communicate to investors on a basis that is broadly consistent and reconcilable with future regulatory reporting”

- Dieter Wemmer, CFO, Zurich Financial Services

“ Current fulfilment value ... will allow us to bring external reporting, solvency and internal economic measures more closely together ”

- Jörg Schneider, CFO,
Munich Re

“ Differentiating noise from trend will be difficult using a margin presentation ”

- Pat Coyne, Corporate Finance,
MassMutual

“ The short term focus on spot rates does not reflect the underlying economics of insurance ”

- Oliver Bäte, CFO,
Allianz

Despite the diversity ...

“ This is a significant paradigm shift in external reporting and a sufficient transition period must be granted so that preparers and users get time to familiarise themselves with the results ”

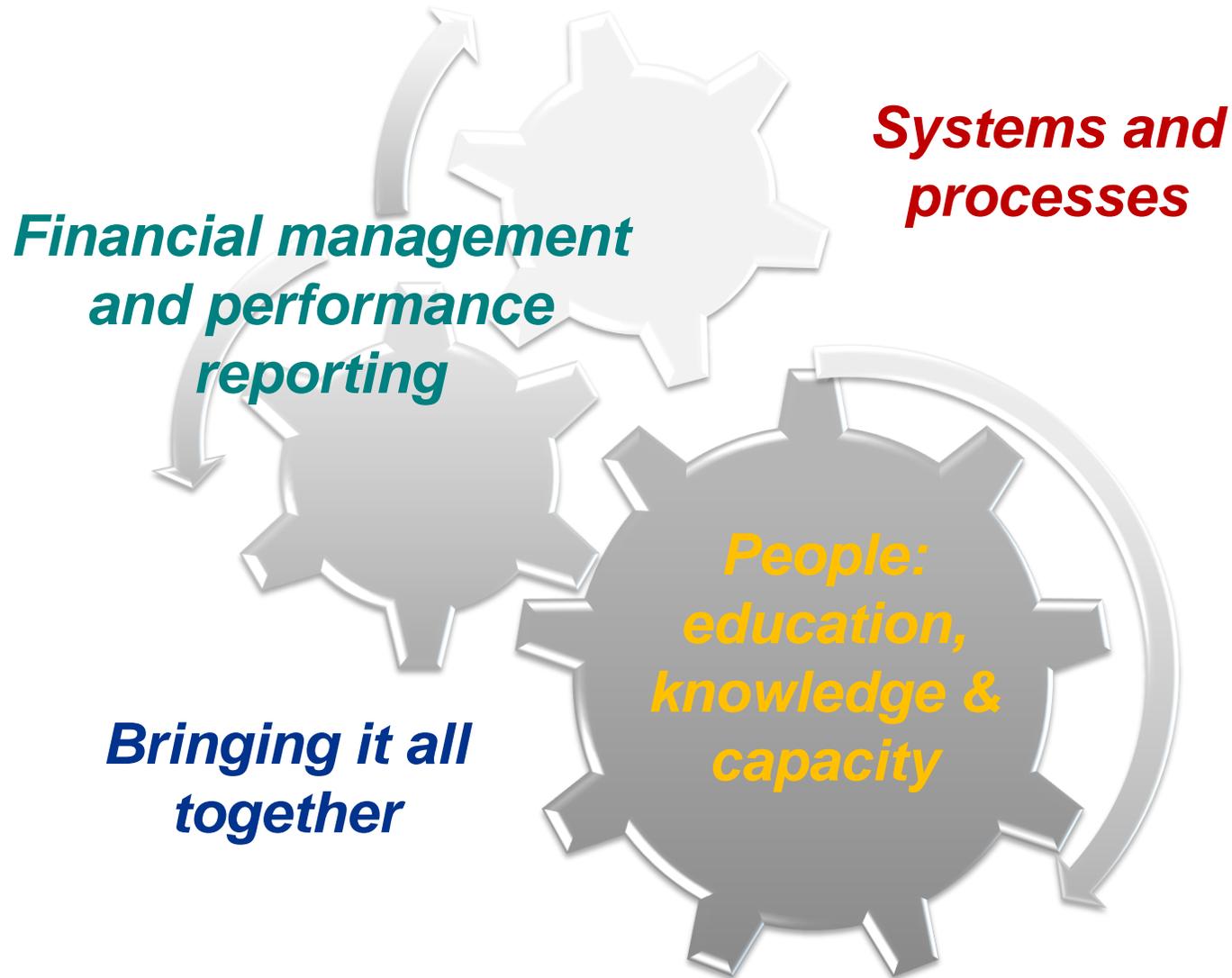
- Jörg Schneider, CFO, Munich Re

“ To ensure a smooth transition, it will be key to engage stakeholders early and educate them about the implications. We need ... at least 2 years after Solvency II becomes effective in order to manage change in a orderly fashion ”

- Tom Singer, Group Finance Director, Bupa

... all agreed the changes will be fundamental and far-reaching

Four dimensions



Financial management and performance reporting

The top issues to impact the business¹ identified through our interviews were:

1 Increased volatility of results

2 Changes to performance reporting

3 Revisions to the definition of acquisition costs

4 Impact on relations with stakeholder and capital management

¹ The business implications are based on current proposals within the IASB's ED released in in July 2010. The Board is currently deliberating these proposals, which are subject to change until a final standard is presented

What is the impact of volatility?

Our interviewees commented that the expected volatility in the proposed model may lead them to:

1

Investigate changes to product strategy

2

Re-evaluate product pricing

3

Restructure reinsurance programmes

4

Revise investment allocations and asset-liability management



Remember
IFRS 9 ! – wholesale
overhaul of financial
instruments

Performance reporting

Our interviewees commented that they expect:

1

Performance metrics will be less familiar

2

Reporting processes will take longer

3

Multi-line businesses will become more complex to explain

4

Performance related pay and executive compensation will change

“ Multiple model runs and the need to calibrate models with period-end market observable data means information will initially be less timely ... we will firstly work out what this means for our processes and then work to optimise them ”

Jon Nielsen, SVP and Regional CFO, AIA

The impact for systems, processes, people and education will be profound

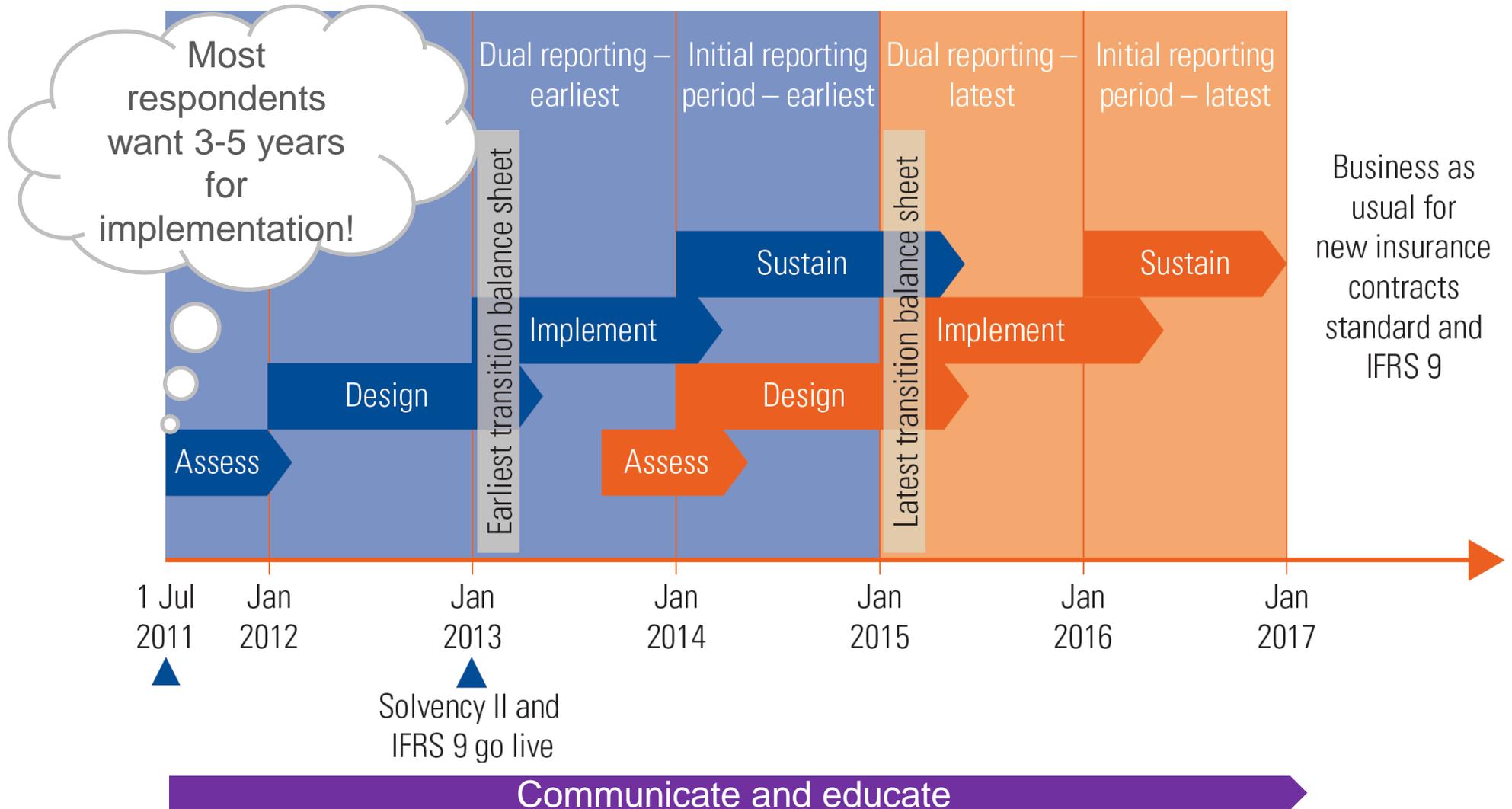
● Significant change
 ● Moderate change
 ● Minor changes
 ● Low impact expected

Topic	Systems	Processes	Education	Support function
Fulfilment cash flows	Significant change	Minor changes	Significant change	Significant change
Discount rate	Moderate change	Significant change	Significant change	Significant change
Risk adjustment	Moderate change	Moderate change	Moderate change	Significant change
Residual margin	Significant change	Minor changes	Minor changes	Significant change
Recognition	Moderate change	Moderate change	Significant change	Minor changes
Acquisition costs	Moderate change	Moderate change	Moderate change	Moderate change
Modified approach	Moderate change	Minor changes	Moderate change	Moderate change
Reinsurance	Moderate change	Minor changes	Moderate change	Moderate change
Unbundling	Moderate change	Minor changes	Moderate change	Minor changes
Presentation	Moderate change	Minor changes	Significant change	Moderate change
Transition	Moderate change	Minor changes	Moderate change	Moderate change

What does this mean for insurers?



A potential timeline



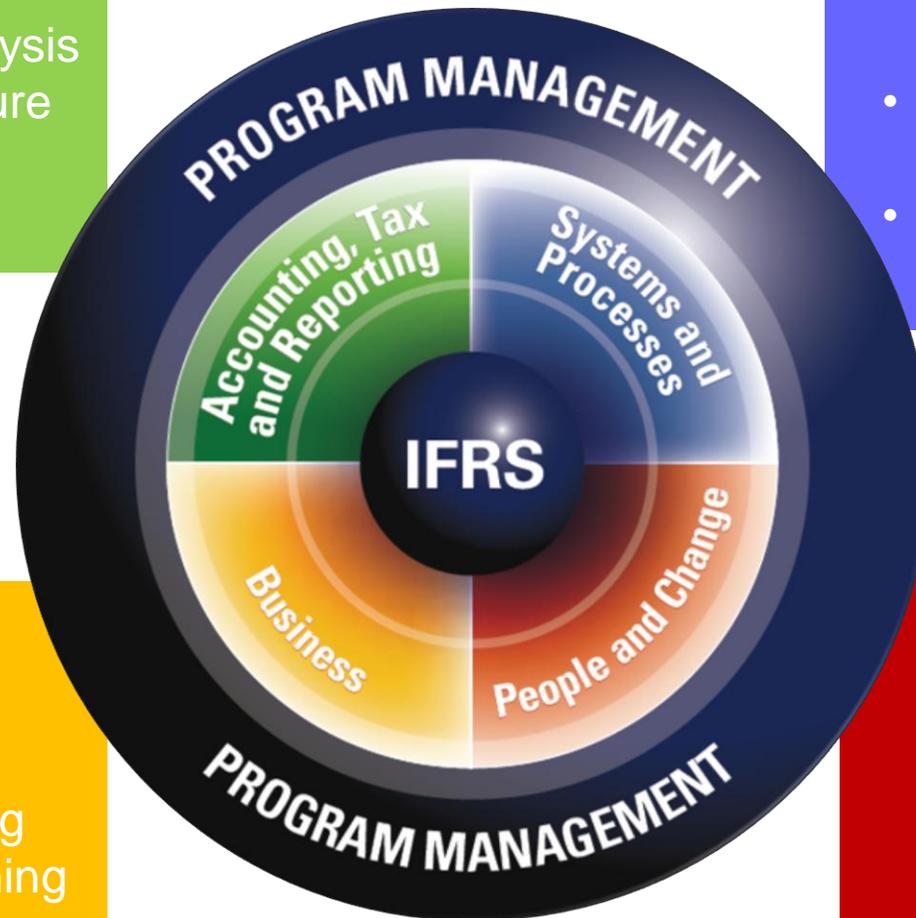
Issues to start considering now

Accounting and reporting

- High level gap analysis
- Investigate disclosure requirements
- Link to Solvency II

Systems and processes

- High level impact assessment
- Identify information gaps
- Impact on systems developments



Business

- Modelling selected products
- Impact on budgeting and business planning

People

- Training and awareness
- Resource needs
- Head count budgets

The New World for Insurance



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Question and Answer



Other projects



Living Wills

Solvency II

ComFrame

Thank you

Presented by

Jeremy Hoon, KPMG in Singapore

