Insurance reporting at the crossroads: What do analysts think?*

October 2007
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Financial reporting within the insurance industry has reached a critical crossroads. Since 2005, insurers in Europe and many other parts of the world have reported under International Financial Reporting Standard 4 (IFRS 4), also referred to as Phase I of the International Accounting Standard Board’s (IASB) project on insurance contract accounting. As an interim measure, IFRS 4 has left in place the many different local accounting practices (generally accepted accounting principles – GAAP) for insurance contracts. However, the new regime has introduced significant additional disclosure about risk management and sensitivity to insurance variables and changes in the claims environment, including loss development tables.

In May 2007, the IASB published a discussion paper setting out proposals for Phase II of its insurance project. These proposals for a new IFRS include a current market-consistent approach to the measurement of insurance contracts (the closing date for comments is 16 November 2007). The debate about harmonisation has been given further impetus by the Securities and Exchange Commission’s (SEC) publication of a ‘concept release’ seeking comments on whether to allow US firms to report under IFRS (the closing date for comments is 13 November 2007).

The disclosure of embedded value as a supplementary basis of reporting has also grown in recent years, particularly in Europe and Asia. In 2004, the European CFO Forum launched European Embedded Value (EEV), which was designed to enhance transparency, the consistency of application and allowance for risks within embedded value reporting, including the time value of options and guarantees. The EEV principles are now the predominant format for embedded value in Europe, though differences in approach still persist. Between May and October 2007, PricewaterhouseCoopers 2 carried out in-depth interviews with 39 dedicated insurance analysts from the US, Europe, Asia and Australia to gain their perspectives on the current state and future direction of financial reporting.

The survey respondents were chosen to provide a cross section of geographies and a mix of buy-side, sell-side, equity, fixed income and credit rating analysts. The questions included the extent to which analysts use (or do not use) various components of insurers’ financial statements in their evaluation of companies and the economic rationale for their choices. A number of further questions examined whether there are any gaps between the types of information analysts believe is useful and their rating of the adequacy of the particular data they actually receive. The analyst interviews also included more open questions about how they believe the scope and nature of insurers’ reporting could be developed and improved.

The survey provides valuable insights into analysts’ current thinking and how companies and standard setters could better understand the needs of these important users of accounts, both now and in the future.

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1 In most instances, the analysts taking part in the survey referred to embedded value as a generic term covering both traditional EV and EEV. Unless we are making a specific distinction between traditional EV and EEV, this generic term is followed in the report.

2 PricewaterhouseCoopers’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.
As it stands, financial reporting for life insurance companies is not useful to investors. The fundamentals of the business are not visible. Analysts cannot do any basic analysis and they have to resort to alternative bases.’  

*European respondent*

**Key findings**

- **Information gap:** Overall, the survey revealed a significant gap between analysts’ rating of the potential ‘usefulness’ (information that would enable them to perform their job effectively) and current ‘adequacy’ (the actual quality, clarity and granularity) of the balance sheet, income statement and cash flow statement (see Figure 1).

- **The ‘adequacy gap’**: This was less marked in relation to non-life insurance, where the adequacy to usefulness ratio1 (A/U ratio) was more than 60% for all statements. Analysts from the US also tended to be more satisfied than their counterparts from other parts of the world (see Figure 2).

- **Life differences:** The approach of life insurance analysts in the US differs significantly from other parts of the world. US analysts generally use US GAAP figures as the primary basis of their valuation models. In contrast, life analysts in Europe and Asia largely disregard the IFRS statements and instead tend to focus on embedded value (EV) disclosure.

- **Why embedded value:** Many of the life analysts using EV do so because they believe it provides a better basis for comparison with prior years and between companies than the prevailing IFRS. Their preference for EV is equivocal, however. In particular they would 

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1 The ‘adequacy to usefulness ratio’ is calculated as the adequacy rating divided by the usefulness score.
like to see greater consistency in the EV evaluation methodologies being used by companies and full disclosure about the underlying management assumptions, especially if EV were to be brought within an audited future IFRS framework.

- **US scepticism**: Embedded value does not look likely to become a feature of disclosure in the US. When asked to comment, most US analysts reckoned that EV is too subjective, lacks consistency and gives management too much influence on the numbers.

- **Non-life more satisfied**: All non-life analysts use GAAP figures in their evaluations, believing that they continue to provide a reasonably relevant, reliable and comparable summary of performance, albeit imperfect. Changes ushered in by IFRS, including greater information about risk, sensitivity analysis and loss development tables, have come to be highly valued and some US analysts would like US companies to start disclosing sensitivity analyses.

- **Management perspective**: Many analysts would like more disclosure through the ‘eyes of management’.

- **Future direction**: Most US analysts are critical of the proposed direction of the future IFRS, believing that current market-consistent evaluation would, as one analyst said, simply create a ‘bigger blacker box’. Analysts in other parts of the world are also uncomfortable with many important elements of the IASB proposals. However, having become more accustomed to current market-consistent evaluation through EV and certain local GAAP (e.g. Australian IFRS for insurance), they are not wholly opposed to the overall direction of contract measurement.

- **What analysts want**: The overriding call is for greater consistency and comparability of disclosure, even if this may give rise to ‘imperfections in capturing the economics’. All analysts would like:
  - greater explanation, validation and transparency of accounting judgements and their implications;
  - more segmental data; and
  - statements that reflect the business model of the insurer.

‘The objective of IFRS should be to present the insurer’s performance through the financial statements rather than value the business. Investors will decide the value of the business, not management.’

*European respondent*

‘The measurement objective is to minimise complexity within a consistent reporting framework.’

*US respondent*
Executive summary

The results of this survey reveal significant expectation gaps between the disclosure analysts receive and what they believe is necessary and desirable to do their job.

This gap is especially marked within countries that report under IFRS, to the extent that life analysts largely ignore the IFRS statements and generally use embedded value instead. In contrast, analysts in the US are more satisfied with the US GAAP information they receive, albeit with important reservations. What can be learned from this disparity?

US analysts are accustomed to the information provided under US GAAP. Once adjustments have been made, they feel the data can provide a reasonably stable platform for rating an insurer and comparing performance with its peers and prior years. In addition, their analysis benefits from more granular and extensive segmental cost analysis and other such data than are generally available elsewhere. Important additional information and validation are available through regulatory disclosure.

In contrast, various different local accounting principles have been retained under the temporary expedient of IFRS 4, making statements across the industry difficult to compare. In turn, new departures such as the introduction of IAS 39 for financial instruments make it difficult to compare IFRS statements with previous years. Moreover, IFRS is a primarily principles-based framework that gives companies considerable discretion in how they convey information. As a result, a common and comparable cross-industry template for disclosure under IFRS has yet to emerge. This includes areas such as the presentation of loss development tables which, while being highly valued by analysts, tend to vary markedly from one company to another. In short, current IFRS lacks the all-important consistency of its US GAAP counterpart, though the application of a common framework is one of the clear aims of the planned IFRS Phase II.

‘Principle-based standards are a good thing as long as companies do not abuse them.’

European respondent

None of the current bases for insurance financial reporting, be this US GAAP, IFRS or the alternative of embedded value, has the unequivocal support of analysts. A key demand is greater transparency and explanation of managements’ assumptions and accounting judgements. This is especially critical as any scepticism or uncertainty will lead analysts to apply discount factors to reported values. Perceptions of opacity could also deter investment in a particular company or the insurance sector as a whole and, ultimately, result in a higher cost of capital for all insurers.

It should be noted, however, that many of the survey interviews were carried out at the peak of the credit market crisis and this would appear to have heightened concerns about the reliability of management judgement in the reported numbers, especially among respondents in the US. It is also notable that the scepticism about management input is at odds with analysts’ frequently stated desire for disclosure that more amply reflects the views of management and the way the business is run.

For standard setters, the findings of this survey highlight the challenge of seeking to meet the needs of users of accounts with very different perspectives and approaches to valuation. This includes considerable differences in the way US and RoW analysts operate now, along with strong US misgivings about any standard that would increase the need for subjective or mark-to-model valuation. That being said, some analysts stressed that the place for the management’s eye view is
within the supplementary disclosure, rather than the audited financial statements.

How to bring a generally sceptical US analyst community into the fold of a project that is not only designed to modernise insurance reporting, but also to harmonise the IFRS and US accounting principles governing insurance contracts, is clearly a very difficult question. Despite reservations, US insurance analyst satisfaction with current US GAAP is relatively high and certainly in line with other commercial sectors, and therefore wholesale change may be difficult to sell. The IASB may need to consider how the challenge of developing consensus and ultimate convergence could affect the course and timing of this project.

Nonetheless, IFRS Phase II is an opportunity to put past misgivings aside and make a new start. Indeed, it is notable that current IASB proposals seek to address many of the gaps and anomalies in current financial reporting cited by the analysts in this survey. For example, the lack of clarity in margins would be addressed by the insistence that margins and best estimates should always be explicitly reported. On a more conceptual level, the current market-consistent contract evaluation model envisaged in the IASB discussion paper is comparable to the approach already used in embedded value and in Australian IFRS for non-life claims liabilities.

‘The Phase II model has a strongly academic aroma.’

US respondent

The overriding demands of analysts from each segment and each country of operation are greater clarity, granularity and consistency of disclosure. Analysts are keen to drill down into where money is being made or being lost and want to understand how management is dealing with this. They would also like clear benchmarks for comparison with other companies. By working together, the industry can play a key role in developing greater comparability, for example in a common format for the presentation of loss development tables, sensitivity analyses, concentration of risk and other key performance indicators such as loss and combined ratios.

Ultimately, analysts want validity and comparability rather than academic purity. Although this is a challenge for companies and standard setters, the pragmatism of investment professionals does offer wide scope for debate and consensus on the best way forward.

‘I want a simple, understandable way to measure earnings that is consistently applied across the industry. I can accept any imperfections in capturing the economics as long as it is comparable.’

US respondent
‘IFRS should require financial information on the capital position of an insurer. Currently the balance sheet mixes policyholder and shareholder money and this confusion should be avoided in the future.’

-European respondent-

Life insurance: Geographical divergence of views

The survey revealed significant differences between US life analysts and life analysts in the rest of the world (RoW).

As the findings set out in Figure 3 demonstrate, few life analysts in countries reporting under IFRS use all the items in the IFRS balance sheet or income statements in their evaluation models, while nearly 25% ignore them altogether. In contrast, US life analysts appear to be more comfortable with current financial reporting, using either all or at least some elements of the US GAAP income statement and balance sheet disclosure.

As Figure 4 further highlights, the current cash flow statement is largely ignored by analysts, because of its aggregation and its failure to reflect the cash flows arising from the capital structure of life insurers. Most would prefer a more granular comparison between management projections and the amounts actually spent, paid and raised. They also want to know how much capital is attributable to policyholders and how much to shareholders.

The information reported in the statement of changes in equity (or equivalent statement) outlining income and expenses not recognised directly in the income statement is also of a more limited use in the analysts’ forecasting models than incomes and expenses reported as profit or loss (see Figure 4).

RoW life analysts
The survey confirmed that analysts in Europe and Asia now prefer embedded value (including EEV) to the current

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**Figure 3: Use of life insurers’ financial statements for valuation purposes**

<table>
<thead>
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<th>Statement Type</th>
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<tr>
<td>Balance sheet – US</td>
<td>9</td>
<td>55</td>
<td>0</td>
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<tr>
<td>Income statement – RoW</td>
<td>25</td>
<td>45</td>
<td>0</td>
</tr>
<tr>
<td>Income statement – US</td>
<td>0</td>
<td>36</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers

**Figure 4: Use of life insurers’ financial statements for valuation purposes**

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<th>Some Lines</th>
<th>All Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement change in equity – RoW</td>
<td>5</td>
<td>40</td>
<td>55</td>
</tr>
<tr>
<td>Statement change in equity – US</td>
<td>9</td>
<td>36</td>
<td>55</td>
</tr>
<tr>
<td>Cash flow statement – RoW</td>
<td>0</td>
<td>11</td>
<td>89</td>
</tr>
<tr>
<td>Cash flow statement – US</td>
<td>0</td>
<td>44</td>
<td>56</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers
‘We value companies on a discounted cash flow basis. The good thing about embedded value is that someone has done this for you. You then need to analyse critically how they have done it to formulate your judgement on the company’s value.’

*European respondent*

IFRS as their basis for evaluation. The use of IFRS information is generally confined to the valuation of assets and their returns, along with operating expenses and finance costs.

The exception among the RoW sample is Australia, where two comprehensive accounting standards for life and non-life insurance contracts that are based on current measurements were introduced into Australian IFRS around ten years ago. Australian analysts taking part in the survey use these Australian IFRS figures to value life insurers in their market, and their adequacy ratings for current reporting are similar to the US analysts.

Australia aside, RoW life analysts tend to prefer EV to the prevailing IFRS. Figure 5 sets out the analysts’ ratings for non-GAAP measures. It is notable that the adequacy to usefulness (A/U) ratio for RoW life non-GAAP presentation, which primarily focuses on EV, is much higher than the comparable score for current IFRS (see Figure 2 on page 3 for comparison).

EV is generally regarded as more consistent and comparable and is ultimately believed to provide a better reflection of the underlying economics of the business. EEV in particular is based on current data including market-consistent evaluations of options and guarantees. It is notable that these features are similar to the proposed IFRS Phase II.

It is also notable that the RoW life analysts have accepted that EV methods can show value creation at the inception of the contract (day one profit). This is in contrast to the US, where current US GAAP reporting and analyst preferences would preclude such a day one profit.

However, the preference for EV is equivocal, even in some cases reluctant, reflecting what many believe is a lack of relevant alternatives. As an evolving methodology, EV is seen as difficult to validate and compare across the sector, especially as the approaches to valuation and the underlying assumptions continue to vary markedly as the industry continues its attempts to standardise application and disclosure.

This lack of a stable platform means that many analysts believe that EV methods cannot as yet provide clear insights into management performance over time and a consistent basis for comparison between companies. ‘The absence of clear disclosure of year-on-year movements in embedded value is the main reason why EV is not used in evaluating return on equity as extensively as it could be under an ideal EV reporting framework,’ said an analyst.

Any extension of EV to reporting in the US is unlikely to be welcomed by US analysts, though few have direct experience of using EV data. Most US analysts in the survey believe that EV lacks consistency, is overly subjective and gives management too much say in the ultimate numbers. ‘Embedded value is overly driven by assumptions and is too sensitive to a single variable, in particular top line growth or the discount rate,’ said a US analyst. ‘The lack of detail about the assumptions in embedded value disclosure makes it difficult to gain comfort with the numbers,’ said another.

![Figure 5: Usefulness and adequacy ratings on non-GAAP presentation of an insurers’ results](chart.png)

Source: PricewaterhouseCoopers
Nonetheless, if a more consistent and comparable EV model could be developed and brought into the audited financial statements, then EV is seen by some RoW life analysts as a possible basis for a future IFRS for insurance contracts. ‘A standardised EV framework for life insurance that is included in the financial statements and accompanied by appropriate sensitivity and margin analysis would be a viable accounting standard,’ said an analyst.

Some analysts also believe that EV would have the advantage of having already taken root as the generally accepted benchmark for life businesses by the time IFRS Phase II is, under current plans, introduced in 2012. In contrast, the new IFRS may find itself marginalised. ‘Time works in favour of existing practices,’ said an analyst.

Others are more sceptical. ‘Embedded value can never be more than a supplementary disclosure basis for disclosure,’ said an analyst. ‘Moving to a financial reporting standard based on embedded value would not work; there are too many moving parts to ever be comfortable with the numbers.’

US life analysts
The survey found that US analysts make considerably more use of the existing financial statements than their counterparts in the RoW (EV data is rarely disclosed by US companies).

US life analysts use US GAAP data as the primary basis for the generation of price to earnings (P/E) or price to book value (P/BV) evaluations (this is also true of the US non-life segment).

Certain elements of the underlying US GAAP information are either adjusted or removed, such as the elimination of unrealised gains and losses to determine what analysts define as ‘normalised’ earnings.

These adjustments indicate that US analysts have important reservations about US GAAP. However, they generally believe that the consistent platform that it offers can facilitate a reasonable comparison between companies and with prior years. Most perceived flaws are well known and some, at least, can be overcome by tried and tested rectification techniques.

Many US analysts also appreciate what they see as the breadth and depth of US disclosure. An analyst who has worked in both the US and Europe believes that ‘the US companies actually do a much better job on their GAAP – for example, many larger companies provide separate profit and loss statements for their risk business, spread business and fee business’.

However, the survey did reveal deep concerns about the subjectivity of management assumptions. Confidence in the assumptions could be enhanced through greater transparency and explanation, allowing analysts to form their own judgements about the relative validity and making it easier for them to compare the results with competitors. ‘Management assumptions should be tested in the context of consistent sensitivity analysis,’ said a US analyst.

There was also a widespread concern that the move from FAS 60 to FAS 97 had opened the door to ever more subjective accounting judgements that may be difficult to compare or validate. In particular, ‘the trend away from locked-in assumptions, especially retrospective unlocking, is unhelpful to investors’. ‘Measuring volatility for volatility’s sake has no value. The focus should be long-term value creation,’ said an analyst.

US life analysts were generally dismissive of a mark-to-model approach to accounting. Their concerns, which appear to have been compounded by the fluctuations in the credit market, have further fuelled their scepticism about the current direction of IFRS. ‘Imputing income on the basis of an internal model does not make sense. Accounting is running ahead of itself,’ said a US analyst. ‘The more we allow changes that are based on model outputs, the further we get from the truth,’ said another.

Particular concerns centre on the possibility of showing a profit at the inception of a contract, which many US analysts believe can only arise through a manipulation of the numbers. ‘Gain at issue makes no sense as it cannot be distributed,’ said a US analyst. ‘Failure to calibrate to the market is too open to manipulation. It would raise the cost of capital if companies book a day one profit,’ said another.

‘All too often, embedded value is subject to management bias, reflecting what it desires from the future performance of the company rather than being objective. Such assumptions should therefore be discounted from share valuations.’

European respondent
‘Non-life business is not transparent because companies manage the level of reserves as the cycle swings up and down.’

European respondent

Non-life: Closing the gap

While the survey found that the adequacy to usefulness ratios judged by non-life analysts leave room for improvement (see Figure 6), the ratings were certainly higher than the comparable scores for life. It is also notable that the perceptions of the usefulness of particular income statement lines by US and RoW analysts were generally relatively close (see Figure 7), whereas within life the RoW sample rated the usefulness much lower.

As Figures 8 and 9 demonstrate, the use of at least some aspects of the financial statements is higher among RoW non-life analysts than RoW life (see Figures 3 and 4 on page 7 for comparison) and once again closer to their US counterparts.

In common with life analysts, US non-life analysts use extensive US GAAP information to produce P/E and P/BV evaluations, which are then tracked over time to form the primary basis for expected value analysis. In the absence of stable prior years’ comparison following the move to IFRS, the majority of analysts in the RoW give higher weight to valuations based on the production of adjusted net asset value (NAV) multiples. Performance appraisal in both the US and RoW also draws on a combination of loss and combined ratios.

US non-life analysts would like more information about risk. Risk disclosure was one of the few areas where the adequacy of current reporting in the US was rated substantially lower than other parts of the world (see Figure 10).
‘The IFRS should require a detailed disclosure of the gross/net triangles by major line of business accompanied by explanation of risk exposure.’

*European respondent*

Overall, non-life analysts appear to be more concerned about ironing out what they see as the specific deficiencies of current disclosure and sharpening its focus, rather than the fundamental direction of financial reporting. There are a number of important differences between non-life accounting and the IFRS Phase II proposals, including the need to build in an explicit and unbiased risk margin to reflect any uncertainty in the estimates under the proposed IFRS.

The majority of non-life analysts tend to rely on current accounting models to forecast the earning of premiums (the unwinding of the unearned premium reserve). Further analysis focuses on establishing the likely quantum of insurance claims and gauging the level of implicit margins built into claims liabilities. Many analysts would like far greater transparency about what is the estimate and what is the margin within the stated claims liabilities.

Analysts also seek to determine the relative price of the risks underwritten compared to prior years and competitors. The latter evaluation forms part of their efforts to pinpoint the relative position of the company in the relevant underwriting cycle.

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**Figure 8: Use of non-life insurers’ financial statements for valuation purposes**

<table>
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<tbody>
<tr>
<td>Balance sheet – RoW</td>
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<td></td>
<td>67</td>
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<tr>
<td>Balance sheet – US</td>
<td>17</td>
<td></td>
<td>67</td>
</tr>
<tr>
<td>Income statement – RoW</td>
<td>12</td>
<td></td>
<td>47</td>
</tr>
<tr>
<td>Income statement – US</td>
<td>8</td>
<td>25</td>
<td>67</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers

**Figure 9: Use of non-life insurers’ financial statements for valuation purposes**

<table>
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<th></th>
<th>%</th>
<th>Some lines</th>
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</tr>
</thead>
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<tr>
<td>Statement changes in equity – RoW</td>
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<td></td>
<td>47</td>
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<td>Statement changes in equity – US</td>
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<td>24</td>
<td>71</td>
</tr>
<tr>
<td>Cash flow statement – US</td>
<td>1</td>
<td></td>
<td>50</td>
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Source: PricewaterhouseCoopers

**Figure 10: Usefulness and adequacy scores of insurance risk disclosures for non-life insurers**

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
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<tbody>
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<td>Usefulness – RoW</td>
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<tr>
<td>Adequacy – RoW</td>
<td>35</td>
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<tr>
<td>A/U ratio – RoW</td>
<td>38</td>
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<tr>
<td>A/U ratio – US</td>
<td>28</td>
</tr>
<tr>
<td>Adequacy – US</td>
<td>25</td>
</tr>
<tr>
<td>Usefulness – US</td>
<td>88</td>
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</table>

Source: PricewaterhouseCoopers
Many analysts believe that more extensive product, business line and other segmental analysis would help to bring disclosure more into line with both the way companies are run and how they themselves evaluate their performance and potential. The desire for more segmental data was especially marked in countries outside the US. The average adequacy rating of US GAAP segmental reporting was nearly 45% higher than the RoW (see Figure 11), which would appear to reflect the benefits of the move to FAS 131. It would be interesting to see whether the RoW analysts' rating would improve once IFRS segmental reporting is brought into line with US GAAP under the forthcoming IFRS 8.

Many analysts would also like more extensive and credible information about the real source and quality of earnings. ‘Performance reporting should highlight the quality of earnings; realised income is of higher quality than unrealised income because it is certain,’ said an analyst. ‘The accounting standard should require more detail within the income statement, such as cash received against estimated premiums, changes of net short-term receivables and payables, and changes of components in the estimate,’ said an analyst. ‘It almost seems as if we need a completely different statement,’ said another. ‘We want to know about the new business flows and capital strains, we want to know about the reasons for capital releases, how much cash can be put back into the business and how much can be given to shareholders, for instance.’ Some analysts favoured the removal of deposits from revenue figures within the income statement. There were also calls to iron out some potentially misleading practices such as the designation of replacement contracts as new life insurance business.

Moreover, the survey revealed strong support for comparing management judgement against actual performance through such disclosure as loss development tables, though these would need to be presented on a more consistent basis and at a segmental level. Many analysts believe that more disclosure through the ‘eyes of management’ would help them to gauge both the quality of management decisions and the validity of the assumptions and forecasting that underlie them. ‘The new IFRS should require at least a five-year schedule...’

More useful and adequate disclosure

Despite differences of sector and geography, the analysts surveyed conveyed a high degree of consensus on areas they believe could enhance the usefulness and adequacy of insurance disclosure.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Usefulness</th>
<th>Adequacy</th>
<th>A/U ratio</th>
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<td>68</td>
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<td>Life – RoW</td>
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<tr>
<td>Non-life US</td>
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<tr>
<td>Non-life RoW</td>
<td>42</td>
<td>47</td>
<td>89</td>
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</table>

Source: PricewaterhouseCoopers

Figure 11: Segmental reporting usefulness and adequacy ratings

‘Insurers should be required to provide more granular segmental information, ideally at a product type level to link the information to the same set of assumptions.’

European respondent
‘The IFRS should ensure there is accurate information regarding the flows that characterise insurance businesses. The development of a rigorous reporting framework to communicate this key information is the space that standard setters should occupy.’

*European respondent*

of future expected cash flows, which can then be compared to subsequent performance,’ said an analyst. ‘The new IFRS should close the gap between financial reporting and the information management uses to run the business,’ said another.

The calls for the disclosure of more information from management’s perspective and a reporting framework that more closely mirrors the business model of the company would appear to be at odds with many analysts’ scepticism about the reliability of management assumptions. However, it should be noted that some analysts would prefer to confine the management’s eye view to the supplementary disclosure.

Underlying these calls was a clear desire for more consistent presentation of information and greater transparency about accounting judgements. ‘The new IFRS should require consistent income statement and balance sheet presentation, including certain minimum headings and prescribed content,’ said an analyst.

Finally, US analysts make considerable use of regulatory disclosure. The draft framework directive for Solvency II is set to bring extensive risk and other regulatory information into the public domain within the EU. There was strong support for greater harmonisation of the frameworks for financial and regulatory reporting among analysts, though such moves may take some time to achieve in Europe, and even longer elsewhere. The exact scope and nature of Solvency II disclosure will not become clear until the finalisation of the ‘implementing measures’.
Our point of view

A number of common themes emerged from the survey of analysts about how they believe insurers could improve the quality, clarity and credibility of their financial reporting. In particular, analysts from around the world would like a far more granular breakdown of information at segment and/or product level. They would also like greater comparability between companies and against previous years than is generally possible at present. Analysts suggested that comparability and their confidence in financial statements could be enhanced by more transparent explanation of the assumptions and approaches underlying management judgements, with further validation coming from more explicit comparisons of forecasts against actual experience.

The survey identified a number of relatively straightforward ways in which companies could meet these analysts' priorities. An example of a 'quick win' would be loss development tables, which could be broken down into products and segments for greater granularity. The comparability of this data could in turn be enhanced by a more standardised approach to presentation.

In other respects, however, the differences of view between companies, the key users of their accounts and the standard setters would appear to be more substantial. These include such contentious areas as the latitude for management judgement and the scale of mark-to-model evaluation.

The diversity of views reflected in the survey has clearly been largely influenced by past experience, accentuated in places by an apparent distrust of certain aspects of current industry practice. This divergence highlights the scale of the challenge facing standard setters in developing the IFRS Phase II standard and it may not be possible to satisfy every constituent, in the short term at least. However good and relevant disclosures are likely to have a key role to play.

Companies and standard setters may therefore need to look at how to address possible disquiet or even resistance from some sections of the analyst community in the lead up to the launch of the new IFRS. The challenge for the standard setters and the industry will be how to bring the investors on board by explaining how their needs and expectations could be met by the new standard.

PricewaterhouseCoopers will continue to promote and facilitate dialogue between all these parties to assist in the process of producing more relevant and reliable financial reporting for the insurance industry. A key example of the potential need for dialogue centres on analysts' clear preference for reliability and comparability, even if this might be at the expense of 'economic' relevance. The standard setters have developed an accounting framework that is theoretically relevant. Now they need to work with the industry and other stakeholders to assess and ensure its reliability and comparability.

Standard setters need to ensure that developments in financial reporting enable investors to understand the underlying performance of the company and how this impacts on those that finance the business – the IASB did not put forward proposals on performance reporting in its discussion paper on the future IFRS. In turn, the industry needs to develop consistent ways of applying the provisions of the new standard so that performance can be effectively compared by the investment community.
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