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The Corporate Reporting Users' Forum

IFRS 17

Some thoughts from a sell-side analyst

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For information about the Insurance CRUF and the context in which comments in this presentation are provided, please see page 15.

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Agenda

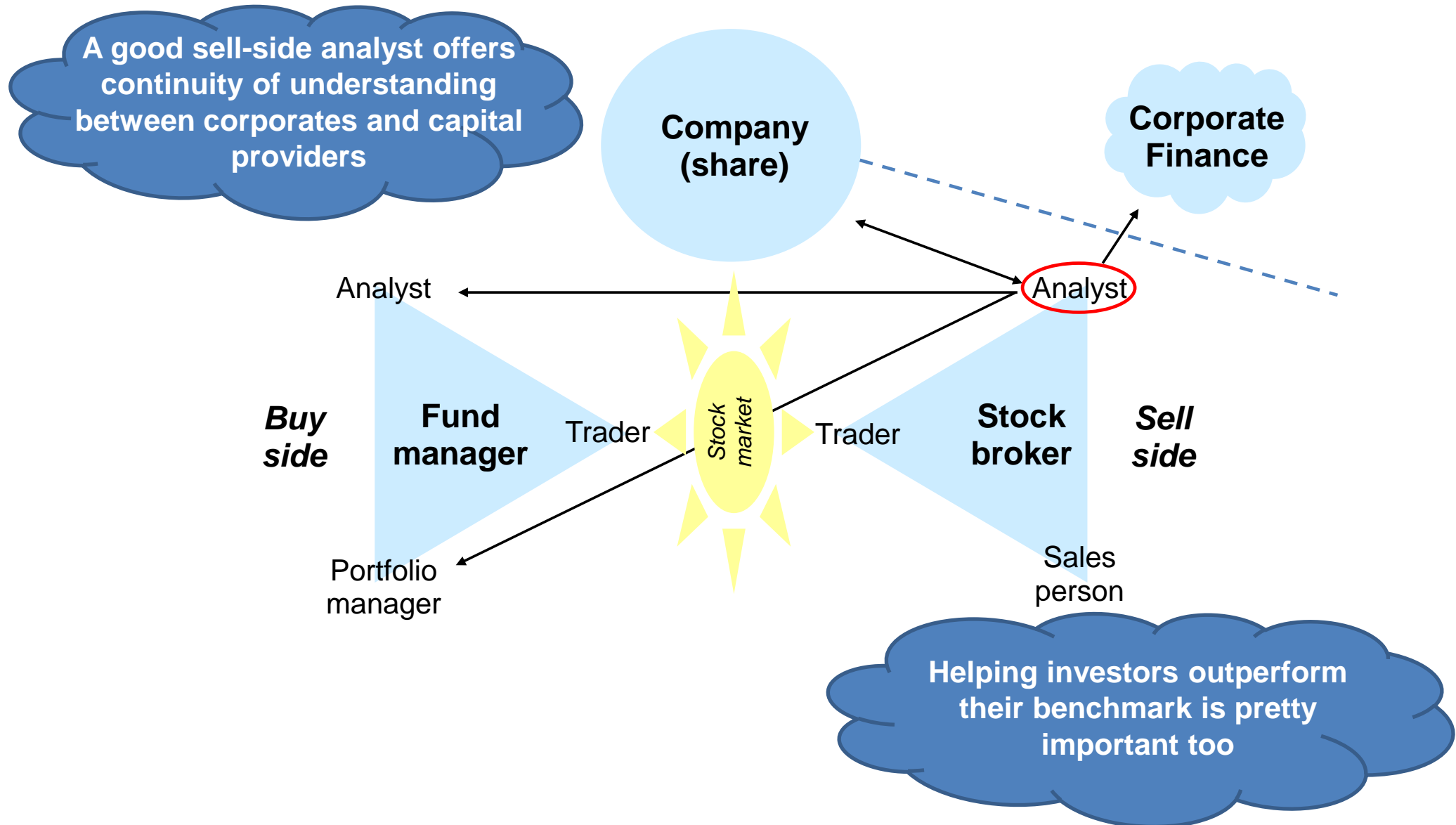
1. Who am I, what do I do and why should you care?

- See Appendix for background on Insurance Corporate Reporting Users' Forum

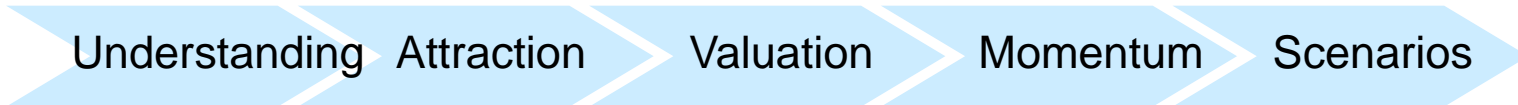
2. Financial disclosure & how I look at insurance companies

3. Some thoughts about IFRS 17

Part 1: The equity analyst in the stock market



What's behind a rating



Time horizon



Momentum: Earnings, Book value, Cash flow, Dividend

Scenarios
Upside / downside risks to investors' / consensus expectations
Fundamental, technical, strategic and tactical drivers

Any active investor assumes that market efficiency occurs in the future, not the present

Investing seeks quantitative rigor but recognises the many uncertainties that often become qualitative

Something makes European insurers trade on discounted valuation multiples

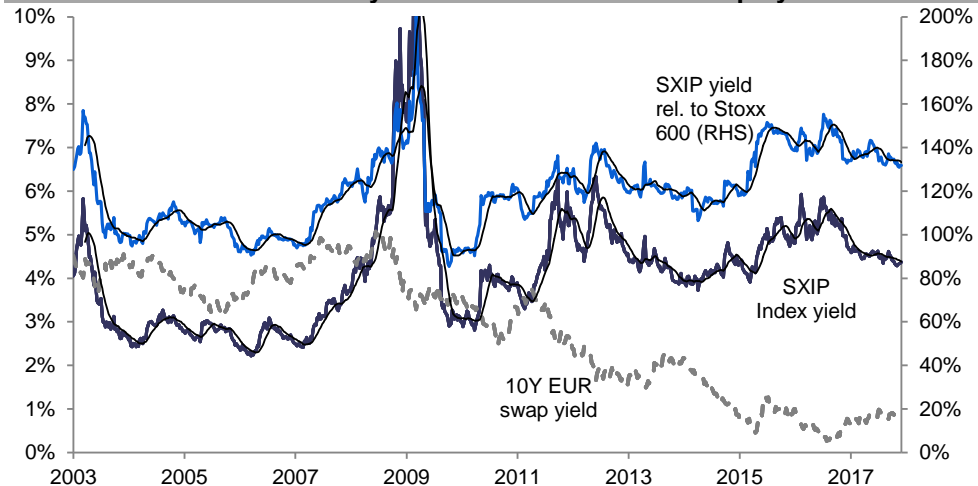
Since 2002, the European insurance forward dividend yield has averaged 1.2x the equity market's. The 1Y forward PE multiple has averaged 0.73x. So there has been a 20-30% long-term insurance valuation discount.

Why?

Solvency / liquidity concerns?
 Business model concerns?
 Information risk?

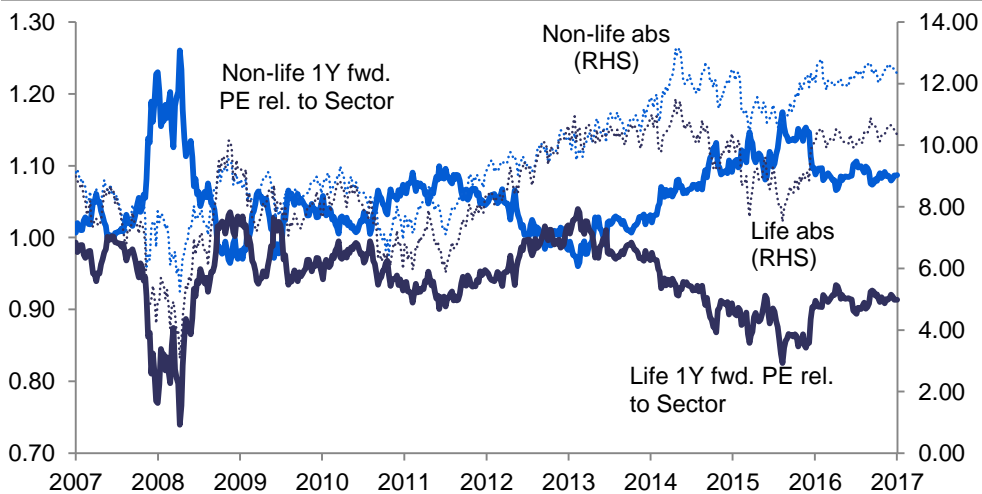
UNLIKELY
 HIGHLY LIKELY
 CONTRIBUTING

Insurance 1YFWD dividend yield absolute & relative to equity market



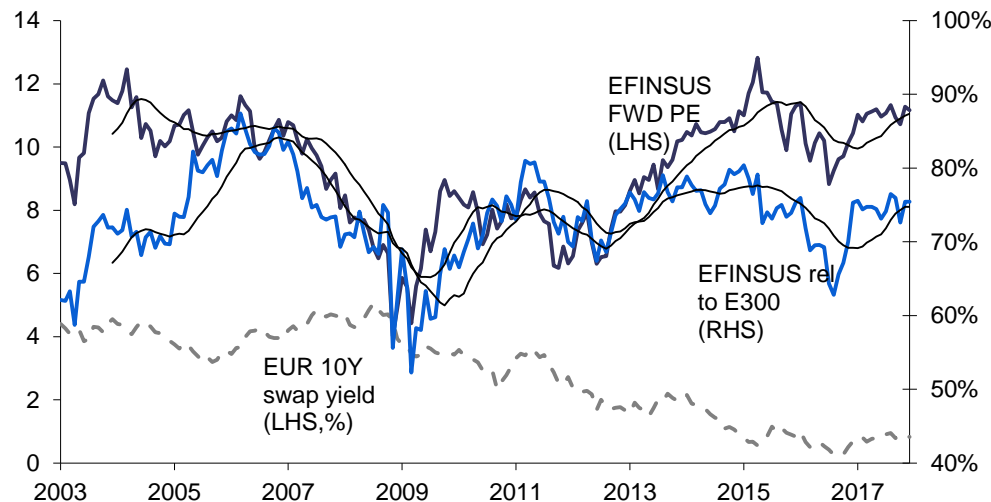
Source: Bloomberg & KBW estimates – Absolute SXIP, relative to Stoxx 600

Non-life / Life relative 1Y FWD headline consensus PEs



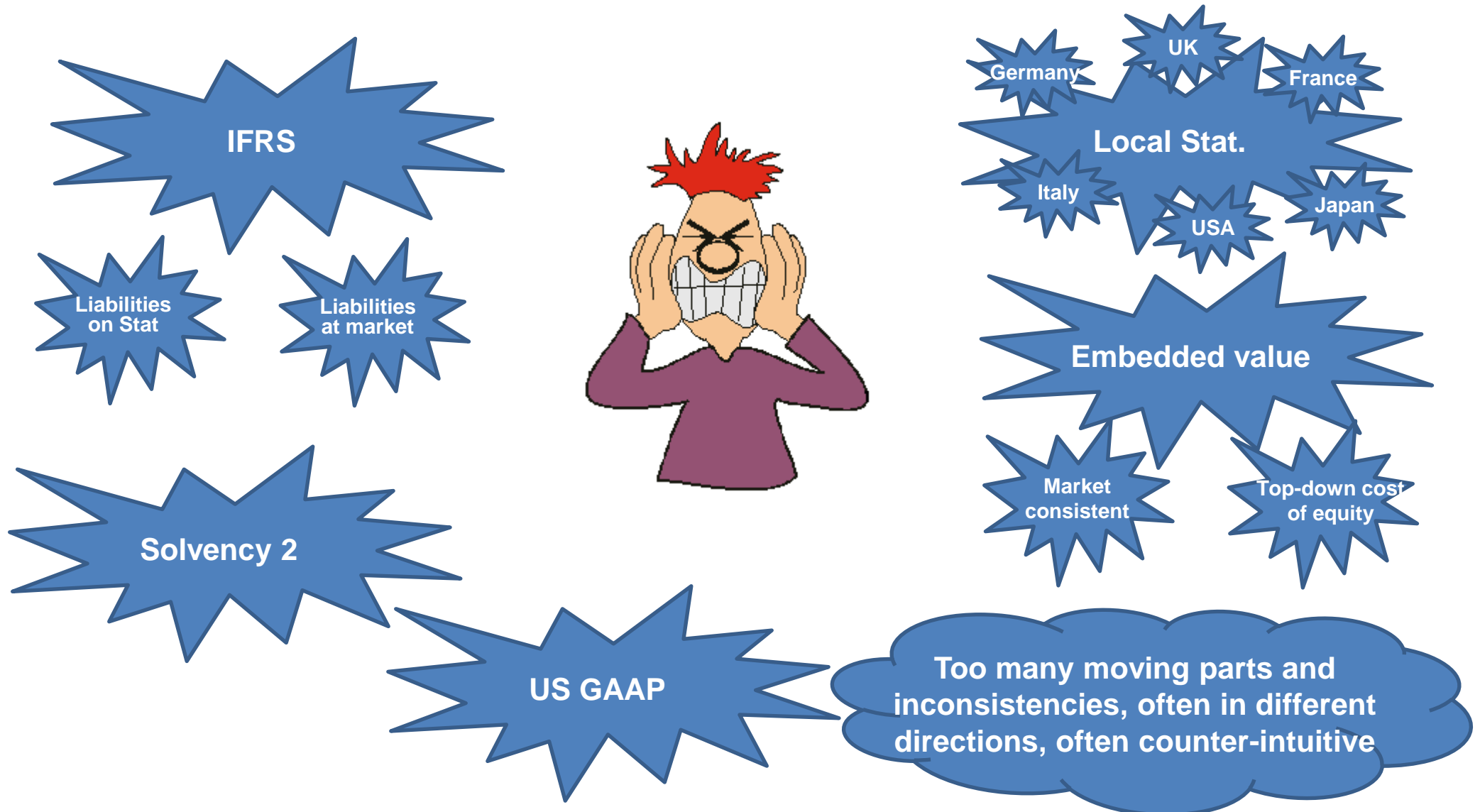
Source: Bloomberg, KBW. Non-life – Munich Re, Swiss Re, Zurich, Sampo, RSA; Life – Aegon, CNP, Prudential, Legal & General, Standard Life

Insurance 1YFWD consensus headline PE absolute & relative

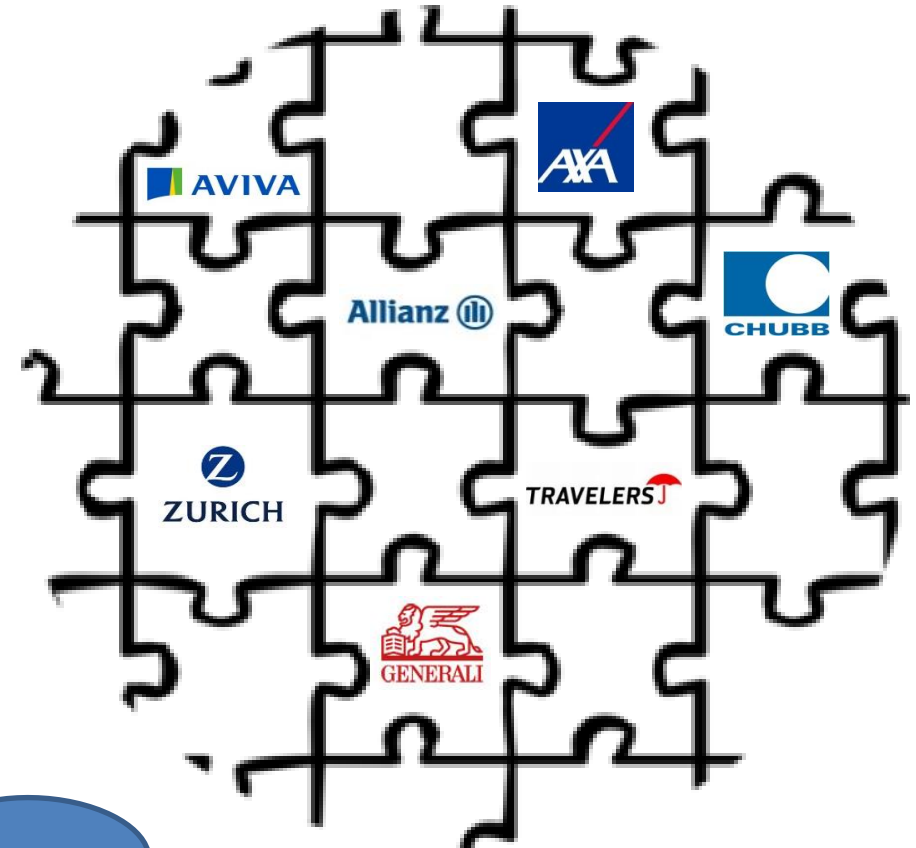
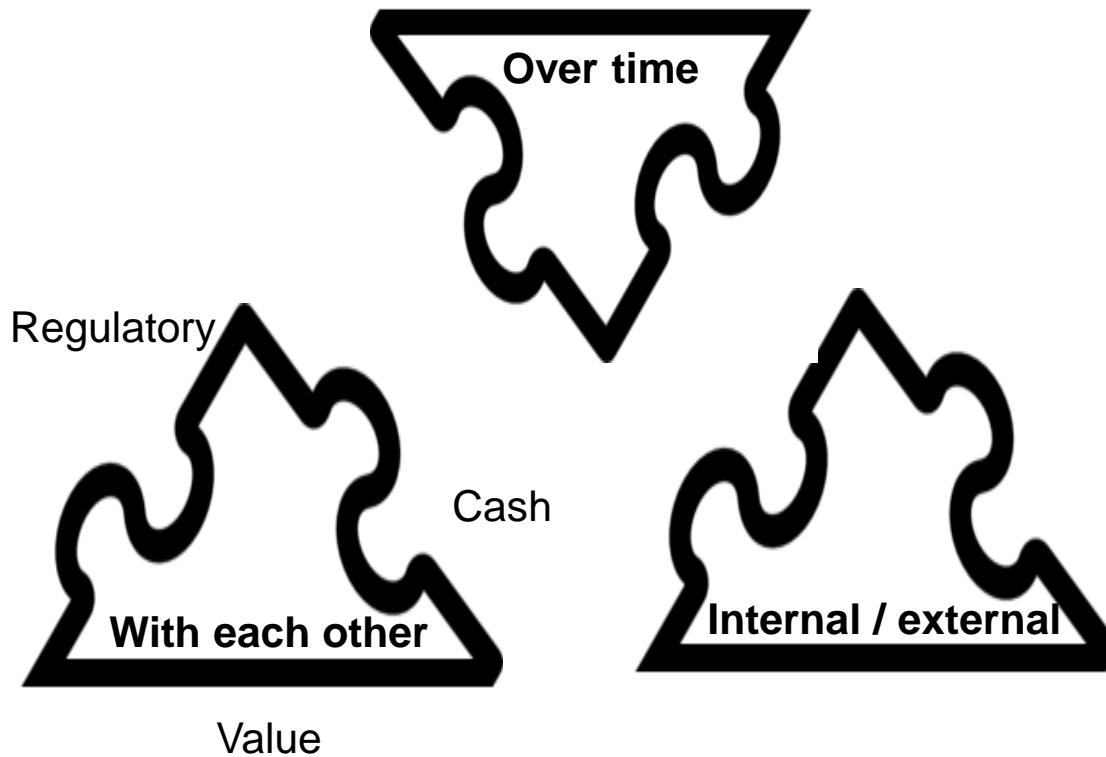


Source: Datastream. – Absolute EFINSUS and relative to E300. This chart and the one above use different data sources reflecting our access to industry data but we do not think this materially distorts the long-term trend analysis. Thin black lines on both charts are 12M rolling average

Part 2: Too much financial noise!

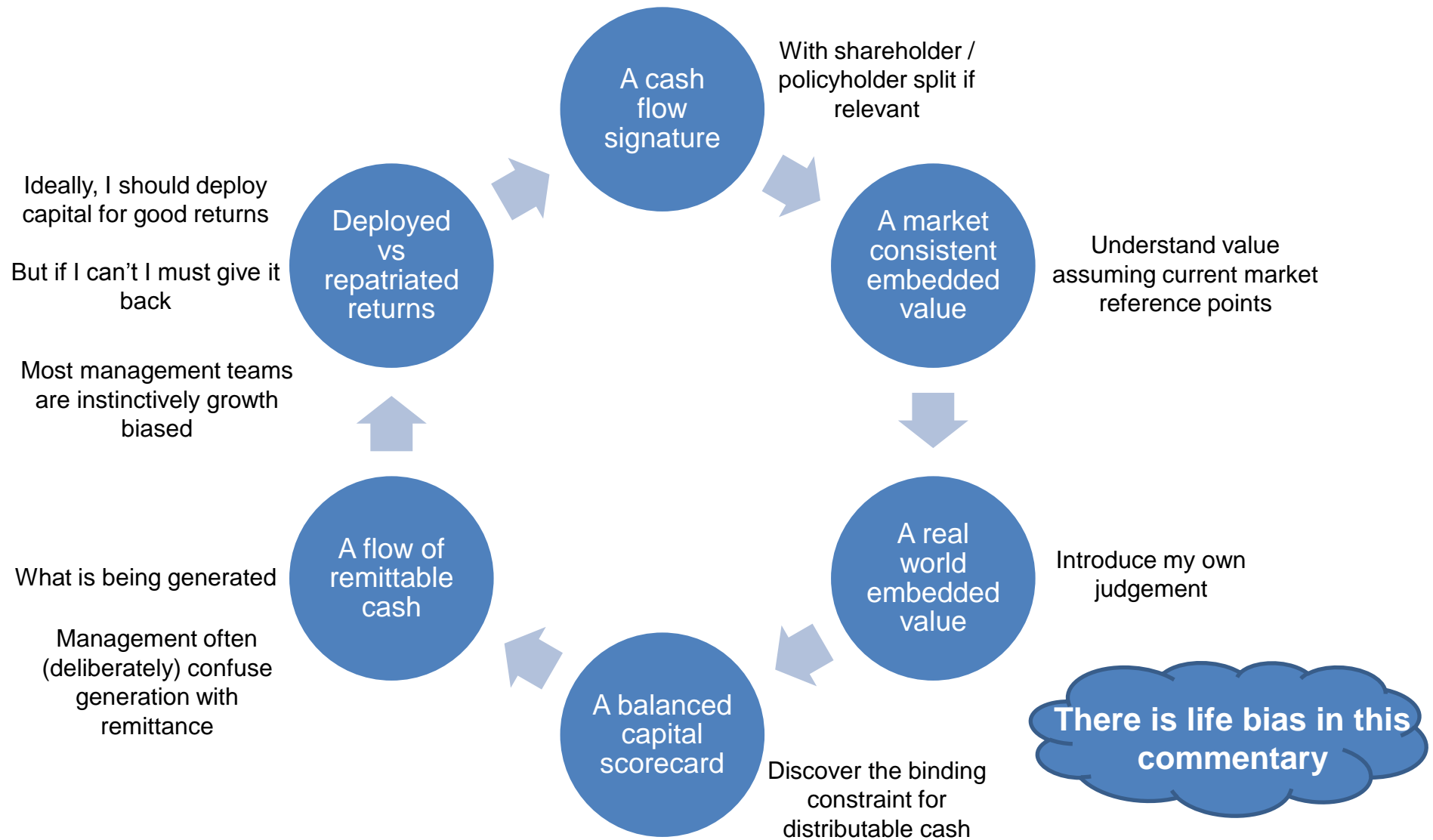


There is value in tying the numbers together

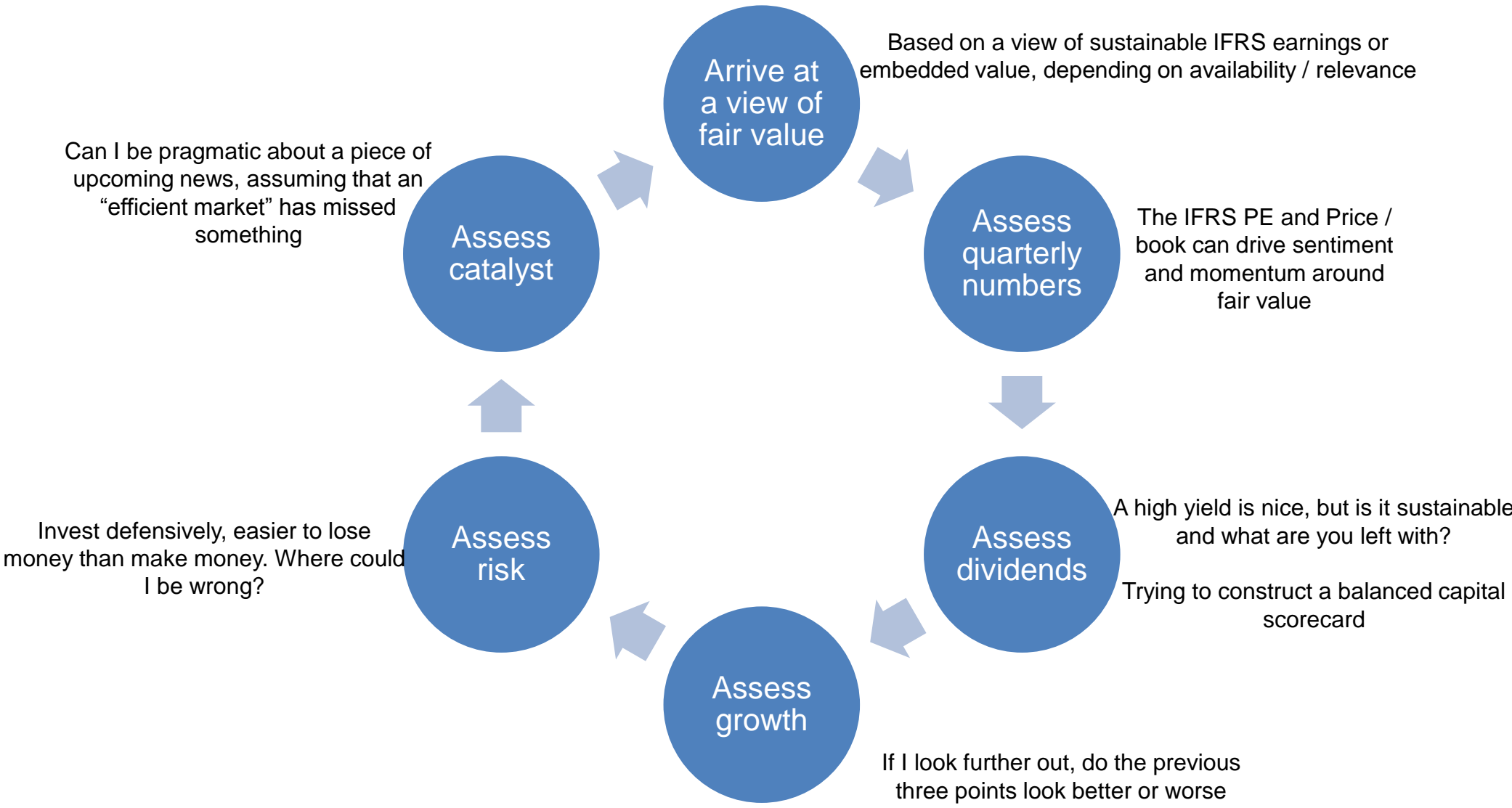


For a concept that relies on data time series, insurance restatement and inconsistency is remarkably high

If I controlled all financial disclosure, I would demand ...



... Sadly, I don't, so I have to be pragmatic (sticking with the ideal wherever possible)



Part 3 - IFRS 17. Process & implementation

1. The IASB could hardly have done more to consult stakeholders on this proposed standard
2. Some feedback seems to have reflected a different philosophy to the IASB
 - Enshrined practices and self-serving arguments have been evident
3. The IASB has introduced many compromises, largely in response to industry feedback:
 - Discount rate, OCI option, PAA, VFA
4. IFRS 17 relies on enforced disclosure and explanation to encourage standardisation
5. Industry's cost concerns need context

The IASB should be applauded for its due diligence and attempted consensus-building

User context

1. Investors and analysts are pragmatic. Company-specific changes already require frequent model rebuilds. Not substantially costly
2. Engagement with IFRS 17 ahead of time is patchy.
 - Too many false dawns
 - Non-life “ain’t broke, don’t fix it”
 - Life status quo unappealing
3. There is a consensus understanding that IFRS 4 is not standard in concept nor application
4. Opinion about “market consistent” and “amortised cost” is divided but the European consensus is familiar with, and supportive of, market value accounting as a part of the decision-making process

IFRS 17 will be adopted pragmatically by most users as part of their armoury of analysis

Framework & disclosure

1. Professional users can cope with headline volatility.
2. Concern is more about predictability (“model-ability”) ...
3. ... and avoiding accounting noise (economically misleading reported financial movements)
4. Professional users look beyond the headline income statement / balance sheet. Useful notes are usually more important than the aggregated figures
5. Concern about ongoing lack of comparability. This reflects aforementioned compromises

Debate has been too driven by the headlines and insufficiently by the notes

Users care more about model-ability than volatility

Points of detail

1. Revenue recognition: there is general agreement that much disclosed life premium is inappropriately booking what should be treated as deposits
 - There is little consensus about the IFRS 17 alternative
2. Building Block Approach: new terminology but the framework seems familiar to users of embedded value. The liability and CSM roll-forward notes proposed seem usefully detailed.
3. Transitionals: fear that in-force restatement will swamp understanding for a generation
4. Annual cohorts: More granularity on how new business value develops within the pot of in-force value seems useful (and consistent with standard practice in non-life).
5. CSM unwind: no strong consensus. Transparency of methodology more important
6. Treatment of reinsurance: no strong consensus. Should not be a deal-breaker
7. Implementation timetable: brief delay may be pragmatic but should discourage renegotiation

Next steps

1. Earnings matter. There is likely to be an ongoing call for operating earnings to smoothen out noise. Current practice is inconsistent (treatment of investment returns, restructuring expenses, financing costs ...)
2. IFRS + Solvency 2 introduces a bias towards market valuation which may require balance with cost and cash disclosure
3. IFRS 17 does not directly help with understanding of free capital generation or distributable free cash flow (both to be contrasted with remittance, incidentally).
 - This was not the direct intention of the standard so it not a criticism
 - We may find useful data in the notes on this subject
 - Should be a priority for future insurance-related accounting standard discussions
4. IFRS 17 is almost certain to require refinement in the future. This lengthy preparatory process is potentially becoming self-defeating.

Let's get on with it!

Appendix: Insurance CRUF (Corporate Reporting Users' Forum)

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

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			Count	Percent
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Underperform [SELL]	37	6.04	9	24.32
Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	11	1.79	1	9.09
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