

KEY POINTS OF THE FINANCIAL COMMUNICATION OF INSURANCE GROUPS

AS AT 31 DECEMBER 2013

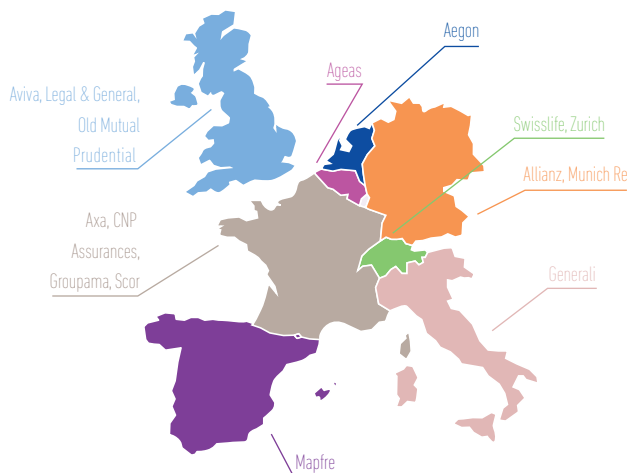


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SCOPE OF THE SURVEY AND COMPOSITION OF THE SAMPLE

Mazars has analysed the annual reports and the financial communication published as at 31 December 2013 of the following 16 European insurance and reinsurance groups that issue accounts under IFRS:



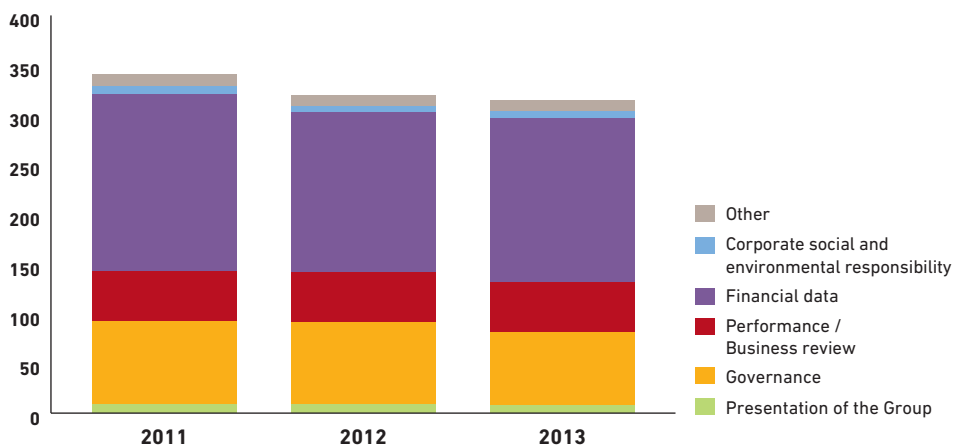
Our sample includes the European players which form the list (established by the Financial Stability Board) of insurers presenting a risk to the global financial system (referred to as "systemic"). These are Allianz, AXA, Generali, Aviva and Prudential.

We illustrate the analysis of each topic with extracts of annual reports and reference documents from the sample.

In addition to the analysis of the sensitive topics listed above, we have also looked at the structure of annual reports and the nature of key messages conveyed.

While it is true that the players have made efforts to rationalise the information provided in their annual reports, applicable regulatory requirements nevertheless limit their capacity to provide clear and concise disclosures.

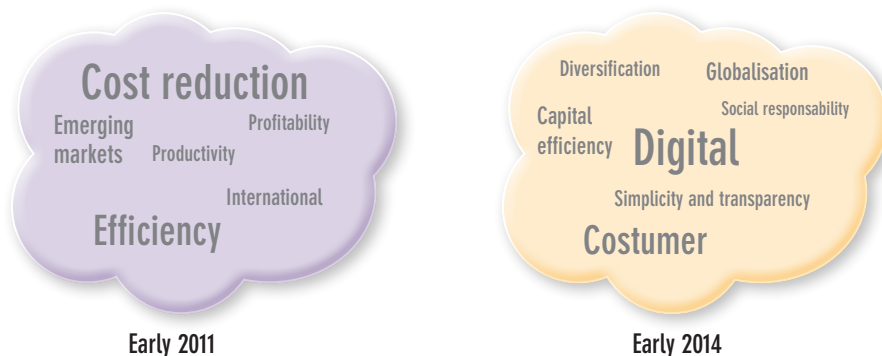
Average length and structure of the annual reports (in number of pages)



The streamlining effort has only had a marginal impact on the volume of annual reports. However, it can be noted that many players use the annual report as a key communication tool, paying careful attention to the form and attractiveness of the document. For others, this represents a financial document of which the main objective is compliance with regulatory requirements.

The messages conveyed in this document are also a good indicator of the state of mind of the governance of these groups and of their perception of current challenges. Thus we have noted that the management of certain large groups have shifted its approach from efficiency and cost control towards a new focus on client satisfaction, digital and capital management. This is shown in the inventory of most-used key words in the large groups' managements' messages below.

Inventory of most used key words in the large groups' managements' messages





1. FOLLOW-UP OF ACCOUNTING ISSUES RELATED TO FINANCIAL ASSETS

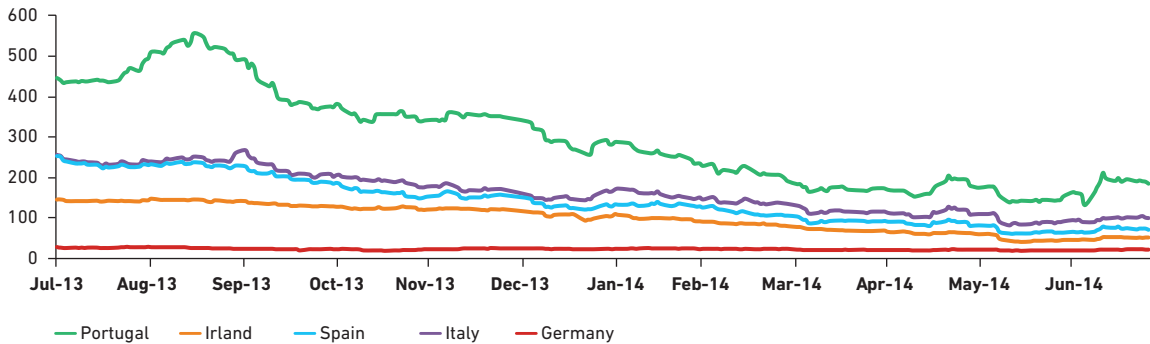
1.1. Reminder of market conditions as at 2013 year-end

As mentioned in the introduction of this survey in 2013, European insurers benefited from market conditions which had distinctly improved since the end of 2011. Stock markets performed fairly well as highlighted by the Eurostoxx 50 index shown below:

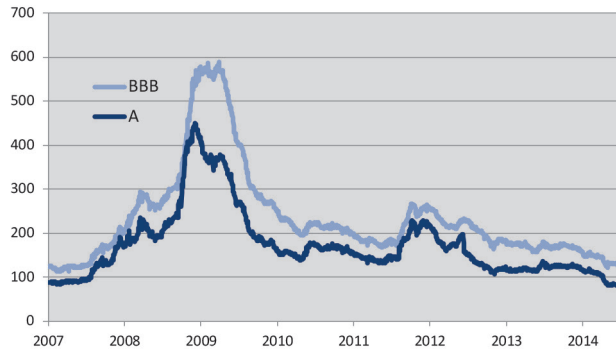
Trends in Euro Stoxx 50



History of CDS Senior 5Y spreads (in bp)



10-year Corporate Spreads (bp)



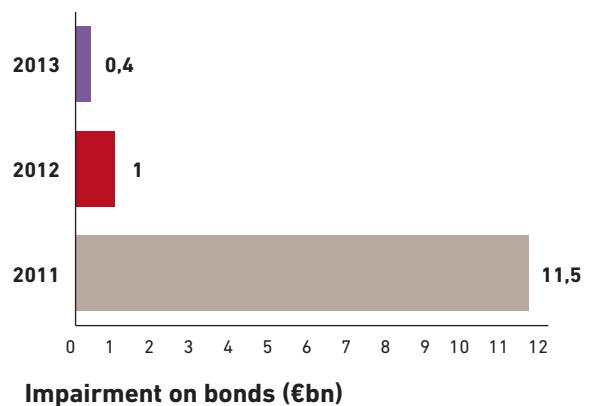
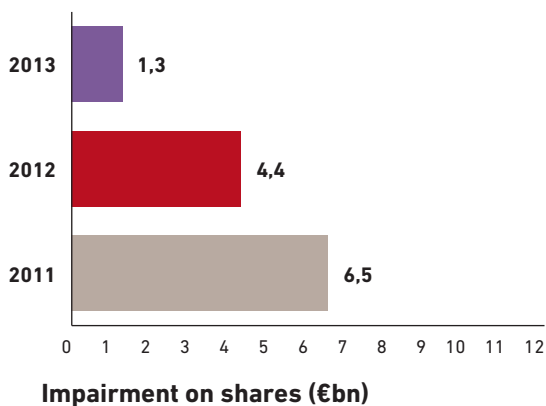
(Source: Bloomberg LP, Raymond James)

Bloomberg's investment grade 'A' and 'BBB' rated corporate bond spreads to U.S. Treasury securities. This measures the extra yield over Treasuries investors demand for holding corporate debt.

The more favourable market conditions described above has reduced the significance of the issue of the impairment of financial instruments, and in particular the impairment of sovereign debts, even though the regulators (through issuing their recommendations) have maintained high requirements regarding the level of information to be disclosed.

1.2. Impairment of financial assets

Accounting issues in 2013 have reduced significantly:

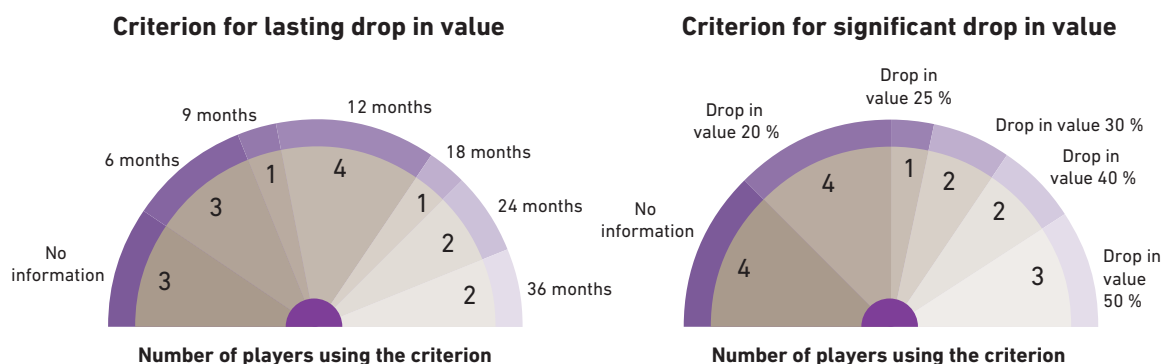


1. Follow-up of accounting issues related to financial assets

The period from 2008 to 2011 was marked by a significant downward trend on the majority of stock markets. This extended trend contributed to the booking of substantial impairment losses by European insurers until the year-end 2011. In 2012 and 2013, the significant decrease of impairments on stocks and bonds reflects the improved performance of the global markets.

We have however kept the analysis of impairments of equity instruments within the scope of this survey, given the comparison difficulties noted in our previous surveys and given the essential character of these disclosures for users to grasp to what extent unrealised losses are reflected in the results presented by insurance and reinsurance groups.

Indeed, according to IAS 39, equity instruments need to be impaired in case of a significant or other than temporary decline in fair value. However, the calibration of impairment criteria is left to the discretion of management and thus can cause diversity which is reflected in the significant differences of criteria chosen by the players:



In addition, the standard does not explicitly exclude the possibility to change the calibration of the criteria over time. In 2013, contrary to the previous financial year, there were no changes to the criteria adopted by the various players. As a reminder, in 2012, one player had changed the duration and range criteria whilst respecting IAS 8 requirements regarding disclosures in the notes to the financial statements on the P&L impacts.

In conclusion, the diversity of methods used remains, which makes comparing information difficult.



2. INSURERS' PRACTICES WITH REGARDS TO DERIVATIVES

For the second consecutive year, we have carried out a review of insurers' practices with respect to disclosures on derivatives. These financial instruments are today's hot topic, having been one of the focus points of the Financial Stability Board when creating the list of « systemic » insurers.



Among the players considered as "systemic ", five are European (which are part of our sample for this survey), three are American and one is Chinese. The classification as a systemic player means that the Financial Stability Board considers that the bankruptcy of one of these players poses a threat to the global financial system and the economy in general.

In making its selection, the Financial Stability Board used a number of criteria including: size; international exposure; non-insurance activities; ability to survive and the interconnection with other establishments. This last criterion partially depends on the number and value of derivative financial instruments used by the insurer.

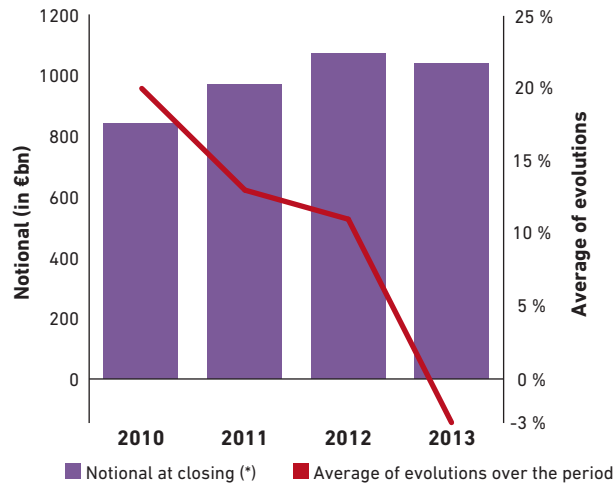
The main consequences of being classified as a systemic player are:

- new capital requirements that remain to be defined, potentially on a different basis than those of the Solvency 2 framework;
- increased supervision at group level;
- the requirement to set up a crisis management group.

These additional requirements need to be implemented progressively. According to the current time table, the part relating to capital requirements should be effective as of 1 January 2019.

Without necessarily seeing a « mechanical » casual link, discussions around the classification of systemic players have been occurring at the same time as the stabilisation of the use of derivatives in 2013 by the insurers forming part of our sample. This trend seems to illustrate that the majority of insurers reach maturity in the desensitisation of their balance sheet to financial risks linked to the risk appetite defined for Solvency 2 purposes.

The evolution of the derivatives' notional amounts for the sample (based on available information) is as follows:



(*) based on the 9 players presenting the notional in the notes to the financial statements

We can note a small decrease in the notional amounts used by the players of our sample. Even though the total notional amount remains significantly below those of large banking institutions, they are sufficiently large to create a need for information in order to be able to understand the level of exposure of each of the players.

The evolution of these notional amounts since 2010 also reflects the large groups' wish to reduce the sensitivity of their balance sheet to financial risks. The recent stabilisation observed shows that the players reached maturity in their risk management policy in the context of the implementation of Solvency 2. In addition, strong financial markets contributed to the reduction in the use of innovative derivatives created by asset managers to increase investment yields (a combination of government bonds and credit derivatives in the private sector leading to increase the yield, for example).

For users of accounts, this situation creates a need for additional information in order to be able to understand the company's real exposure.

2.1. Reminder - What do the standards say?

In the context of a substantial use of derivatives and the attention paid to them by regulators, we have carried out a review of the IFRS requirements in terms of disclosures to be provided in the notes to the financial statements.

As for « standard » financial instruments, IFRS 7 is applicable to derivatives and requires disclosures on:

- Fair value measurement (Level 1, 2 and 3 hierarchy as defined by IAS 39);
- Risks inherent to derivatives:
 - Qualitative reporting regarding exposure to various risks (credit, liquidity, market);
 - Quantitative reporting on exposure and specific disclosures on each type of risk (in particular for credit, liquidity and market risk).

Where derivatives are used in hedging strategies, IFRS 7 requires the disclosure of detailed qualitative and quantitative information on the objectives and impacts by nature of hedging strategy used.

At this stage, the normative framework is not very prescriptive about disclosures to be provided specifically on derivatives. However, the IFRS 7 amendment that is effective from 2013 on will introduce additional requirements for collateralised derivatives.

2.2. A diverse use of derivatives

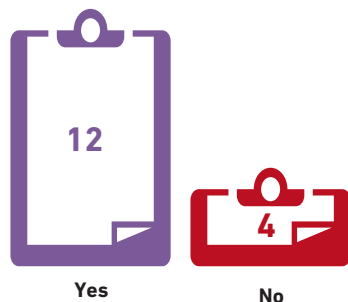
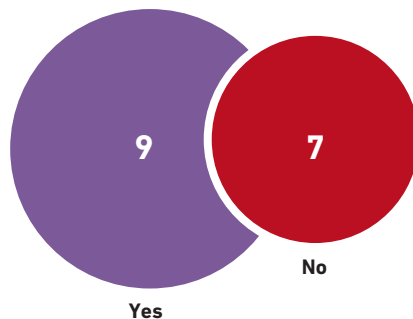
We have reviewed the information available in the annual reports of our sample, looking firstly at disclosures on the exposure of each of the players.

The observations are similar to last year's. Most players dedicate a specific note in the financial statements to derivatives. Others mention them in the note on financial investments.

As last year, enough information is available for the reader to note the diversity of exposures in our sample.

Most players report the notional value of these instruments even though IFRS 7 does not include any explicit obligation to do so.

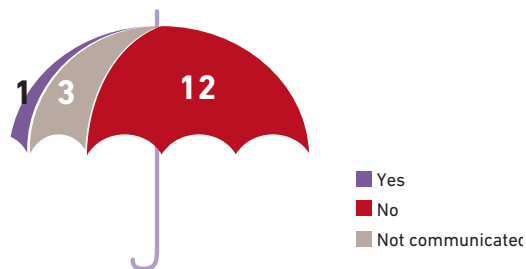
Whilst the standard does not require disclosure of notional amounts, it does require the disclosure of the fair value of these financial instruments on the balance sheet. All of the players respect this disclosure requirement that enables a full understanding a company's exposure to counterparty risk. Indeed, with the exception of credit default swaps (CDS), the credit risk borne by the derivative holder depends on the fair value of the exposure when it is positive and thus recognised in the balance sheet.

Specific note in the financial statement:**Presentation of notional amount**

2.3. Counterparty risk management

Counterparty risk is a sensitive topic that has been the focus of attention with the implementation of IFRS 13 on fair value. This risk can generate significant accounting impacts, in particular as it is taken into account in the fair value determination of derivatives (more details on this are given in section V).

The information on the collateralisation policy in place in insurance groups is the most relevant information to appreciate the counterparty risk. This information is generally disclosed by players of our sample but only one of them reports the existence of a systematic collateralisation process.

Mention of collateralisation practices?**Systematic collateralisation ?**

Most players say that the counterparty risk has been mitigated. The implementation of European Market Infrastructure Regulation ("EMIR") and more particularly of mandatory off-setting procedures should further improve the mitigation of this risk.

Regarding credit default swaps (CDS), the indication of their fair value on its own is not sufficient to assess the counterparty risk of the underlying object of the contract. For this type of instrument, information on the notional value, the quality of the underlying assets and the "direction" of the contract (seller/buyer of protection) are necessary to appreciate the risk the entity is facing. Although not all players use this type of instrument, we note that only few disclose all the necessary information, in particular on the notional values of these instruments.



2.4. Diverse levels of disclosure

The level of information provided by the players of our sample is very different from one player to the other. We have compared this information on the followings aspects:

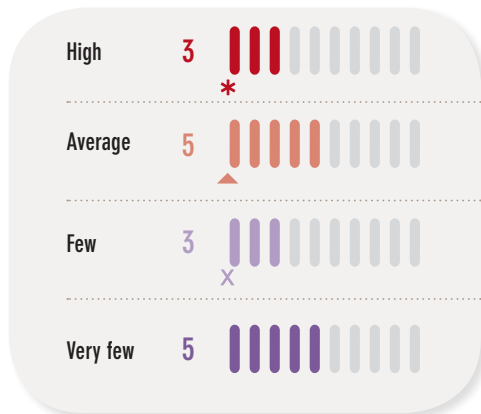
- description of objectives of the use of derivatives and the extent to which players provide detailed disclosures;
- depth of information disclosed to understand how strategies are implemented;
- extent of use of these instruments.

On the first item, there is no major change compared to the last financial year. The objectives are similar from one player to another and are in most cases very generic. As mentioned above, they mostly consist in:

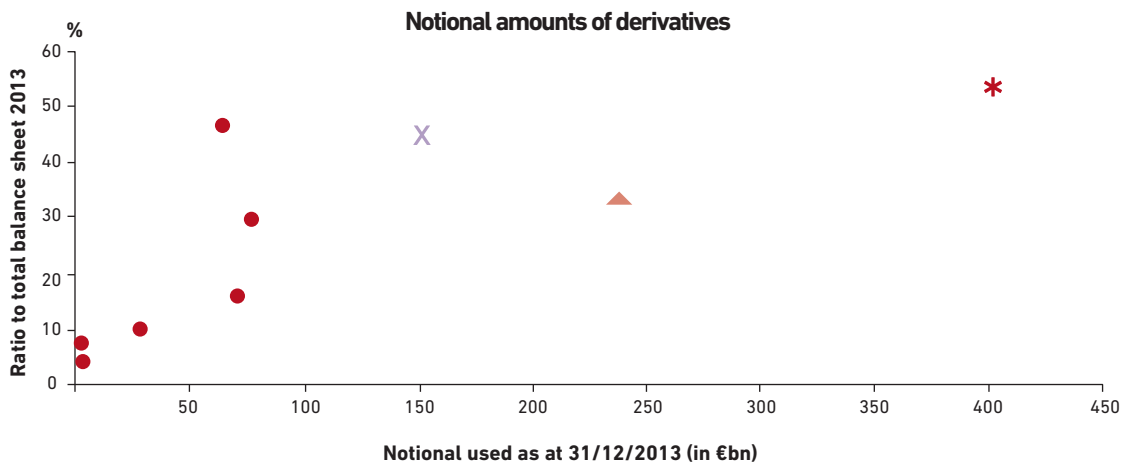
- Managing financial risk through hedging strategies
- Implementing investment strategies to compensate for the lack of market depth on certain asset types (i.e. high-quality corporate bonds).

The level of detail provided to explain the implementation measures for these objectives and the strategies used is very different from one player to another:

Details given on the implementation of the strategies



The same observation can be made on the last item: the extent of the use of derivatives across our sample varies widely. The chart below illustrates this diversity among the players who disclose their level of notional value:



The same diversity can be found in terms of relative use of derivatives when looking at the ratio of the total notional value to the total balance sheet amount of the insurers.

In addition, one can see that there is no correlation between the extent of use of derivatives and the depth of information disclosed on strategies, as might have been expected. Among the three players using more than 100 bn of notional amount of derivatives, only one provided a high level of details regarding the strategies deployed.

To conclude on this part related to derivatives, we can this year again put forward the following observations:

- Derivatives are currently a topic on which IFRS provide very little guidance regarding specific information to disclose on exposure and ways of managing it;
- The use of derivatives and the level of information provided is very different from one player to another;
- The significant notional amounts involved give rise to the need for a more precise framework that facilitates the appreciation of exposures and their comparison from one player to another and over time. It is however reassuring to note that in the light of the information provided, we have not identified among the sample any significant net exposure that would have stemmed from derivatives;
- The publication of the list of systemic insurers has not created a radical change regarding information provided and notional amount of instruments used. However, one can observe a slow progression of the quality of the disclosures.



3. IMPACT OF THE NEW IAS/IFRS STANDARDS

The financial statements as at 31 December 2013 were prepared in a context where new standards applied for the first time. The main standards are:

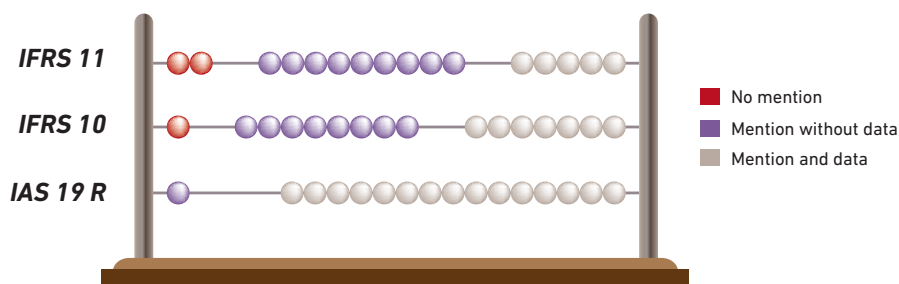
- IFRS 13 and the latest amendment to IFRS 7;
- IAS 19 Revised (“R”) on Employee Benefits;
- The “consolidation package” including IFRS 10, IFRS 11, IFRS 12, IAS 28R and IAS 27 R.

Regarding the “consolidation package”, this was published by the IASB in May 2011 (transitional provisions were completed by amendments in June 2012) and application is mandatory for financial years starting on 1 January 2014 for European companies. The application date set by the European Union is one year later than the application date fixed by the IASB. Most of our sample has thus decided to wait until 2014 before applying the new standards. These groups however needed to disclose expected impacts from the application of the new standards. Most players reported that these standards are not expected to have any material impact on their consolidated financial statements (refer chart below).

Regarding the amendment to IAS 19R published on 16 June 2011, the main changes are:

- The removal of the so-called “corridor” method that allows the deferral of the booking of actuarial gains and losses;
- The replacement of the interest charge and the expected return on investments of the schemes by a net interest amount calculated by applying the discount rate to the net liabilities (assets) booked relating to defined benefit pension schemes;
- The deferral of service charges is not authorised any longer and service charges now need to be recognized immediately on the date of occurrence.

Application of the amendment being mandatory from 31 December 2013 onwards, all players of the sample communicated impacts of the first application (refer chart below).



For IAS 19 R, the quantified impact on our sample is an increase in reported earnings of €111m and a reduction of equity of €2.3 bn.

The most significant change of the year is the first application of IFRS 13 on fair value.

For the purposes of our survey, we firstly analysed the quantitative impact of the application of this standard.

WHAT THE STANDARD SAYS

The fair value in IFRS 13 is defined as an “Exit price” (IFRS 13.9):

- Pre IFRS 13: “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”.
- According to IFRS 13: “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”

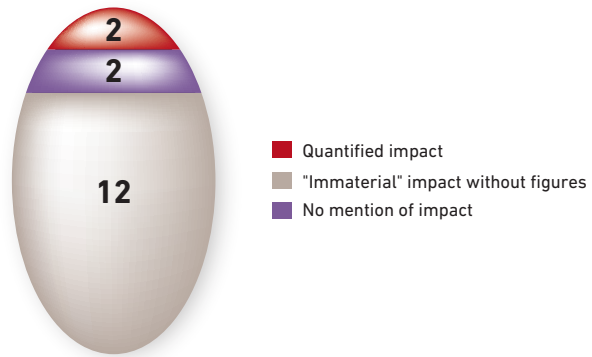
This definition of fair value applies to financial instruments as well as to non financial items. IFRS 13 also specifies that the fair value needs to include all assumptions on risk taken into account by market participants (IFRS13.22).

This last point mainly impacted the valuation of derivatives which needs to include all risk assumptions taken into account by market participants and thus in a more systematic way the counterparty risk (CVA/DVA).

CVA (Credit Valuation Adjustment) represents the risk that the banking counterpart defaults; it is a cost for the company (decrease in fair value for a derivative booked as an asset).

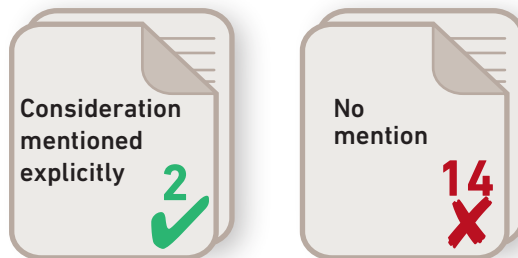
DVA (Debit value Adjustment) represents the risk that the company defaults; it is an income for the company (decrease of the fair value of a derivative booked as a liability).

CVA was already supposed to be taken into account in the valuation of derivatives before IFRS 13. On the contrary, DVA is a new issue arising from the application of the new standard. Given the amount of derivatives used by the insurers of our sample, the expected impact could be material. For most insurers that have already mentioned the impact, it is immaterial.



Various players can contribute to increase the potential materiality of these two indicators. In particular, one can mention the lack of standard protections regarding the default risk, as for example the absence of collaterals, margin calls or master netting agreements, as well as potentially risky protections like banking counterparties with "low" ratings. Another factor is the exposure to the derivatives market, for example a high notional value of derivatives, a long maturity of derivatives, a material fair value of the overall portfolio or a significant fair value of the derivatives portfolio by counterparties. The analysis of the materiality of CVA and DVA is dynamic and thus needs to be updated at every closing.

One can only assume that the standard collateralisation mechanisms and the implementation of « Master netting Agreements » contribute to significantly reducing the materiality of the CVA/DVA impact for insurers, the information regarding the credit risk in the derivatives valuation not being very explicit.



This is a development area for most insurers for the years to come.

Whilst it is difficult to measure the real impact of IFRS 13 on the determination of the fair value, its application has led to an increase of the information to be disclosed in the notes to the financial statements, both for financial and non-financial assets and liabilities accounted for at fair value and those for which the fair value is presented in the notes to the financial statements.

WHAT THE STANDARD SAYS

The following disclosures need to be included in the notes to the financial statements:

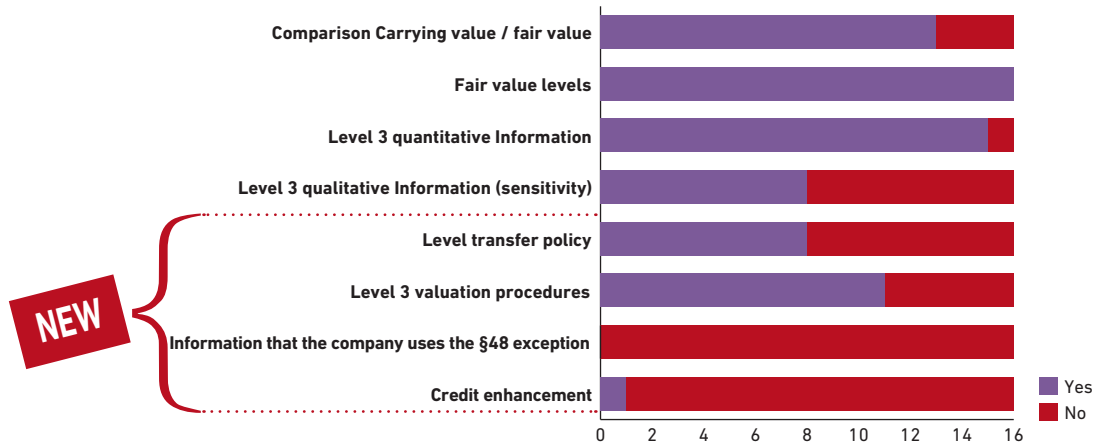
New information to be provided by asset and liability class	Annual accounts			Summary intermediary accounts
	Items recurrently at FV on balance sheet	Items non recurrently at FV on balance sheet	Items at FV in notes to the financial statements IFRS 13 § 97	Financial Assets/Liabilities at FY on balance sheet IAS 34 § 16Aj
§ 93a FY at year end, and reasons for non recurring FV valuations	X	X		X
§ 93b Fair value level	X	X	X	X
§ 93c Transfers between Level 1 and Level 2	X			X
§ 93d Information on Fair value Levels 2 and 3 (valuation method and inputs)	X	X	X	X
§ 93e Table of variations of items classified as Level 3	X			X
§ 93f Unrealised gains and losses on FY Level 3 items accounted for through P&L	X			X
§ 93g Description of the procedure for valuations of Level 3 items	X	X		X
§ 93h Qualitative (and quantitative for financial instruments) sensitivity analyses on non observable inputs for Level 3 items	X			X
§ 93i Information whether the actual use of a non financial assets differs from its "highest and best use"	X	X	X	
§ 95 Transfer policy between fair value levels	X	X		X
§ 96 Information that the company uses the exception as per IFRS 13 § 48 to value on a portfolio basis	X			X
§ 98 Information on liabilities valued at FV and issued with an indivisible credit enhancement provided by a third party	X			X

■ Financial and non financial assets/liabilities

■ Non financial assets/liabilities

3. Impact of the new IAS/IFRS standards

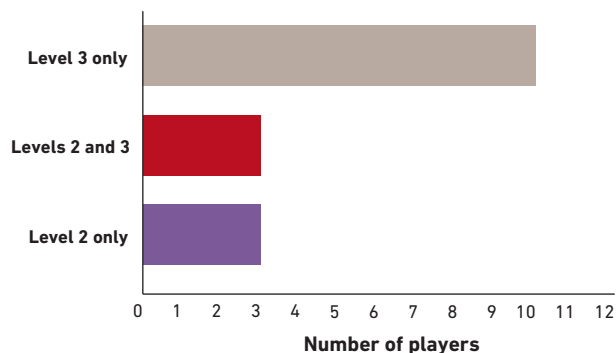
The enhancement in the level of requirements brought about by the standard is high and we note that none of the players of our sample disclosed all the additional information required. However, the information already required before the standard came into effect is generally provided, as shows the chart below:



Another major change introduced by IFRS 13 relates to the disclosure of information described above in relation to non-financial assets and liabilities measured at fair value in the balance sheet or of which the fair value is communicated in the notes to the financial statements. Among these non financial assets and liabilities, we more particularly looked at real estate assets for which the classification in the fair value hierarchy is the topic of much debate in the industry.

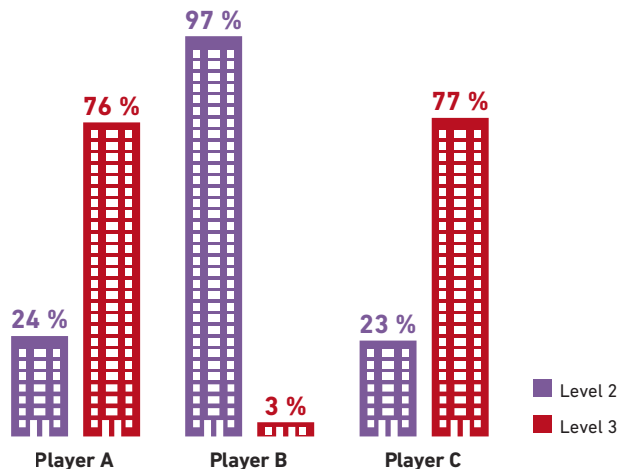
It is interesting to note that one part of the players of our sample classified real estate assets partially or fully as level 2 assets whilst listed real estate companies chose a level 3 classification, in accordance with the EPRA recommendations (European Public Real Estate Association).

FV level according to IFRS 13 of investments in real estate (excl. UL*)



* UL = Unit Linked

Focus on players classifying real estate as levels 2 and 3



Where the level 2 classification is chosen, one could have expected to find more information on valuation methods, the observable character of assumptions used for the valuation and on the portfolios and their characteristics. None of this was disclosed as at 31 December 2013.

The first application of IFRS 13 has thus led to an increase of the disclosures provided in the notes to the financial statements. Efforts still remain to be made by most players to ensure compliance with all new requirements. These requirements should make it possible to understand the "quality" of the chosen valuation methods and their sensitivity to structural parameters of the chosen methodologies.

It appears from the annual reports of the insurers as at 31 December 2013 that the first application of IFRS 13, without any surprises, mainly impacted the valuation of derivatives, with a more systematic consideration of the counterparty risk (CVA/DVA) which however did not have a significant impact. The information disclosed does not in general enable the identification of calculation methods chosen to value the counterparty risk on derivatives.



4. GOODWILL AND OTHER INTANGIBLE ASSETS: RECOVERABILITY TESTING AND INFORMATION PROVIDED IN THE NOTES TO THE FINANCIAL STATEMENTS

As during previous years, we looked at information regarding intangible assets on the balance sheet of the insurance companies in order to analyse the impact of the improvements of the economic and financial environment on their amounts and impairment tests. This topic has once again drawn our attention, as:

- The level of margins in life insurance on the “traditional” markets of the players of our sample remain low in an environment marked by persistently low interest rates;
- This item of the balance sheet is still one of the market regulators’ and investors’ hot topics;
- The amendments to IAS 36 could have been adopted early as at 31 December 2013.

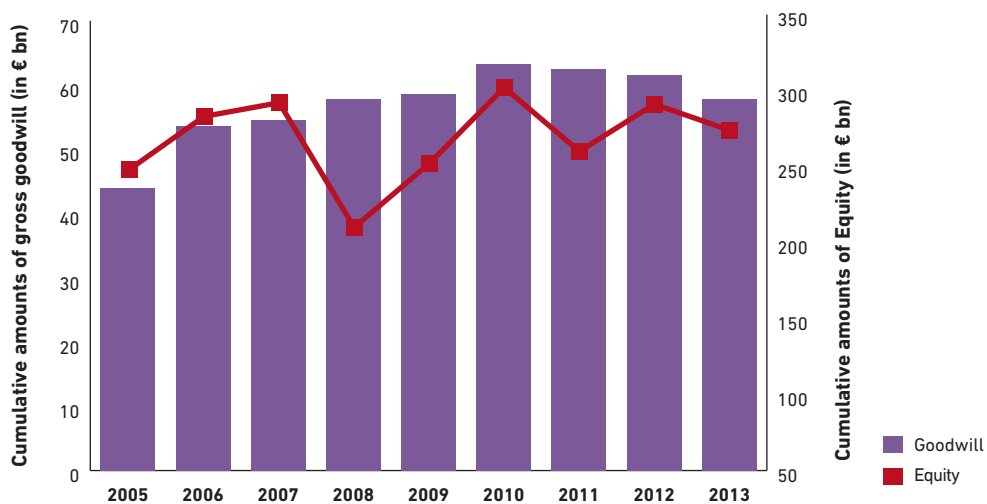
4.1. The impact of the economic and financial environment on changes to goodwill and its recoverability

4.1.1. A few statistics

The insurance industry in Europe had experienced a significant volume of mergers and acquisitions before the financial crisis. This steep increase in transactions led to a significant increase of amount of goodwill within the insurers’ and reinsurers’ assets in the balance sheet (+€15bn for our sample, being a 40 % variance in the period from 2005 to 2008).

The financial crisis in 2008 which led to a significant decrease of financial markets developed into a deeper and prolonged economic crisis. The gross amount of goodwill (before impairment) has decreased overall since 2010, because of assets sales which exceed new acquisitions. On our sample, the decrease noted in 2013 is €1.5bn after allowance for exchange rates (-2.5 % compared to 2012). This decrease is the consequence of the withdrawal from certain markets that do not correspond (any longer) to the areas where the players want to develop, mainly in Europe and North America.

The acquisitions during the financial year only generated very little goodwill.



The weight of goodwill in the equity remains stable with an average ratio of Goodwill/Equity of 23 % at the end of 2013, with important disparities depending on the players.

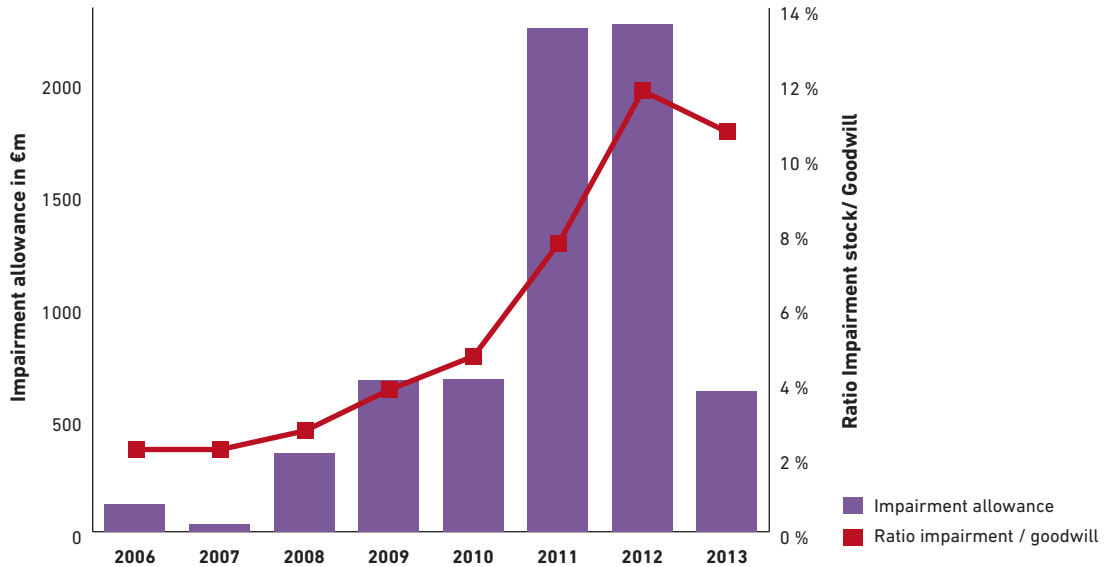
4.1.2. Reduced headroom

Forecasts of future margins justifying goodwill are particularly impacted by the historically low interest rates and by the weak growth perspectives in Euro zone countries.

In 2011, we noted a strong progression of impairment allowances across our sample, reflecting an erosion of the headroom that allows insurers to justify the recoverability of goodwill. In 2012, the amount of impairment allowances remained stable, thus confirming the sensitivity of these tests to the lasting economic downturn.

The financial year 2013 is characterised by a significant decrease of impairment allowances. Combined with the divestments of assets impaired in previous financial years, the new impairment allowances do not lead to a significant change in the impairment ratio compared to the amount of goodwill, which remains stable at 11 %.

Evolution of the cumulative amount of impairment allowances

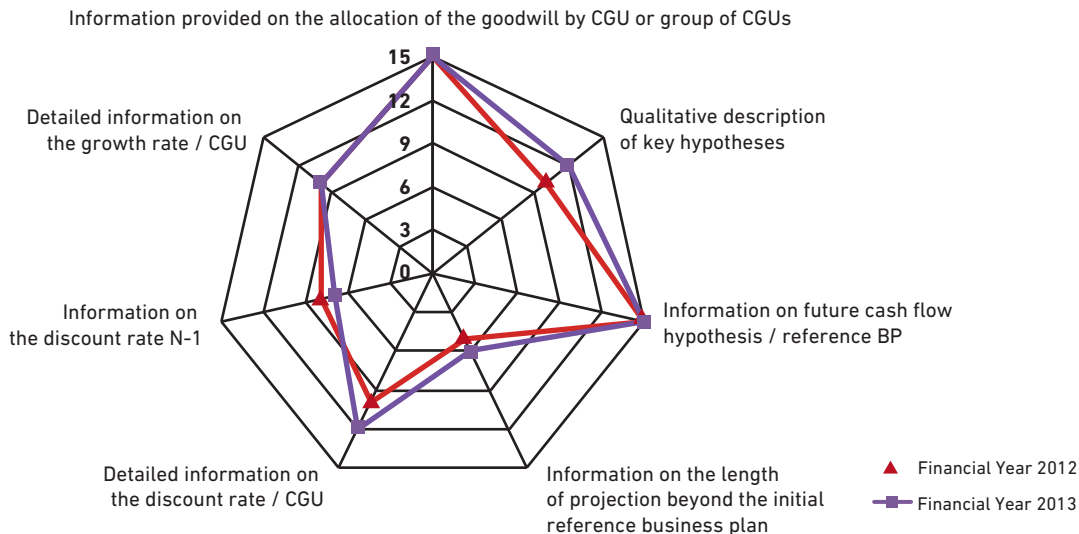


This trend observed on impairment allowances does not mean that the headroom in impairment tests has become comfortable once again but it illustrates that the pressure on margins has reduced.

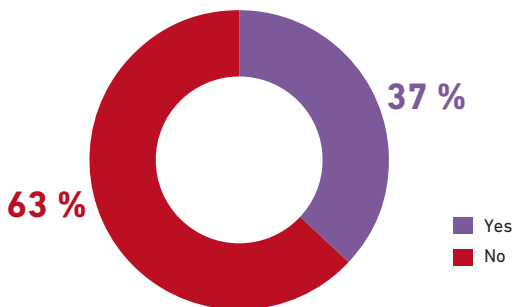
4.2. Is the information provided in the notes to the financial statements regarding impairment tests and their sensitivity to key assumptions sufficient?

One of our focus points is the practical application of IAS 36, as well as the financial disclosures provided by insurers on the implementation of impairment tests for goodwill and sensitivity tests.

The chart below shows the results of our survey on the different requirements of IAS 36: it shows that the level of disclosures provided in 2013 on the implementation measures of impairment tests is very similar to that of 2012. The key improvements noted in 2013 mainly relate to the description of key qualitative assumptions and the detailed disclosures of discount rates used (two players increasing their disclosures on these items). In particular, most players are explicit on the main adaptations that have allowed using the MCEV ("Market Consistent Embedded Value") model to value life insurance activities in goodwill impairment tests.



Anticipated application of the amendment to IAS 36

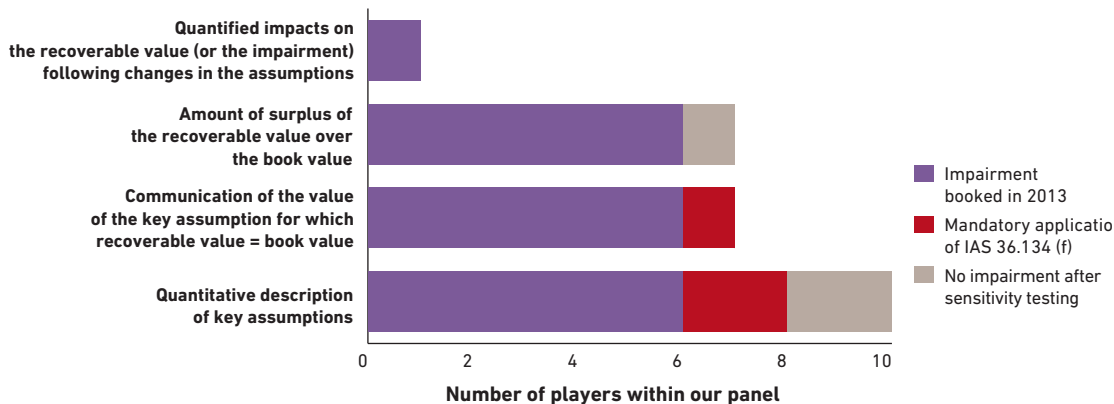


This year's major change in the requirements for disclosures on goodwill impairment relates to the anticipated application of the amendments to IAS 36. The objective of these amendments is to update IAS 36 following the implementation of IFRS 13. They impose the disclosure of the recoverable value of CGUs for which an impairment has been booked or reversed during the financial year. Six players of our sample have applied this standard by anticipation without this having any impact on their financial communication given that the changes are not applicable to them.

In general, although the requirements of IAS 36 are respected overall, we can observe an important diversity of practices in the methodological choices, the level of detail provided and the values attributed to key assumptions.

In regards to information on sensitivities, this is required by the standard if a reasonable change of key assumptions – on which management bases its determination of the recoverable value of the unit – could lead the CGU’s book value to exceed its recoverable value (IAS 36.134).

Focus on information related to sensitivity tests

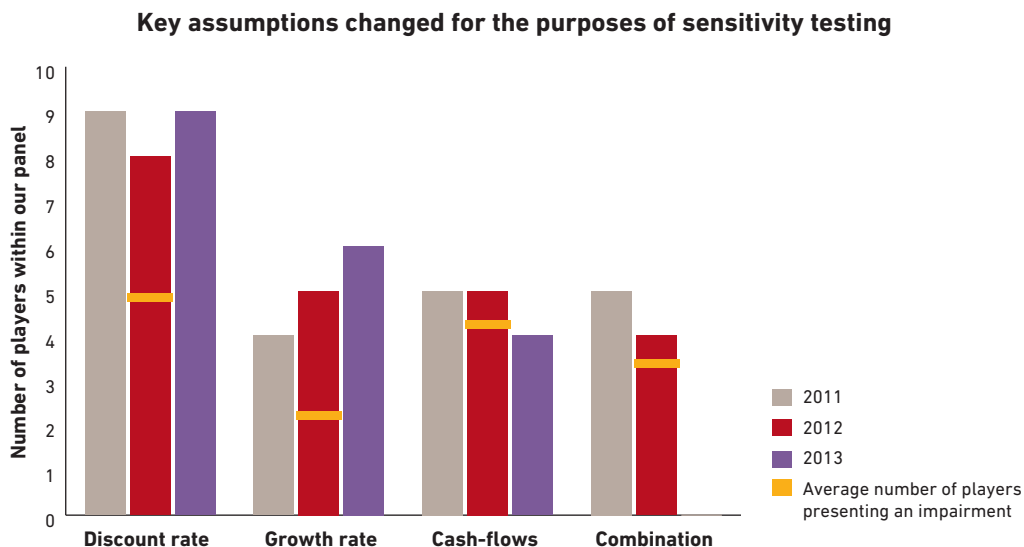


Companies in scope for IAS 36.134 generally limit their disclosures to providing the changes made to key assumptions. About two thirds of players of our sample provide this information for sensitivity tests.

The amount of the surplus of the recoverable value on the book value and the quantified impacts of a change in key assumptions on the recoverable value are more rarely disclosed. During our previous surveys, we already noted that the disclosures of this type of information were diverse.

We can also observe that in 2013 no player carries out simulations changing a combination of several assumptions. This practice – encouraged by the regulators and in theory relevant when assumptions are correlated – is more complex and can lead to results that are difficult to interpret.

Sensitivity tests are mostly based on variances in discount rates. Practices are more diverse regarding other parameters as the growth rate or cash flows.



One can note that the players do not make the link between performance indicators put forward in their financial communication (Embedded Value for life insurance and combined ratio for general insurance) and sensitivity test carried out on the asset value of these activities.

4.3. Disclosures in the notes to the financial statement on other intangible assets

Our survey also looked at other intangible assets, of which deferred acquisition costs represent the largest component.

The amounts of other intangibles on the balance sheet differ greatly from one insurer to another. Regarding deferred acquisition costs, five insurers represent 75 % of the total amount of our sample. All carry out impairment test, either specific or through the liability adequacy testing.

The value of the other intangibles increased compared to 2012, mainly because of the increase of deferred acquisition costs, with values of portfolios and distribution agreements remaining stable. No deferred profit sharing is booked on the asset side of the balance sheet due to strong equity markets, historically low interest rates and the narrowing of credit spreads of European countries to which several of the groups of our sample are strongly exposed.

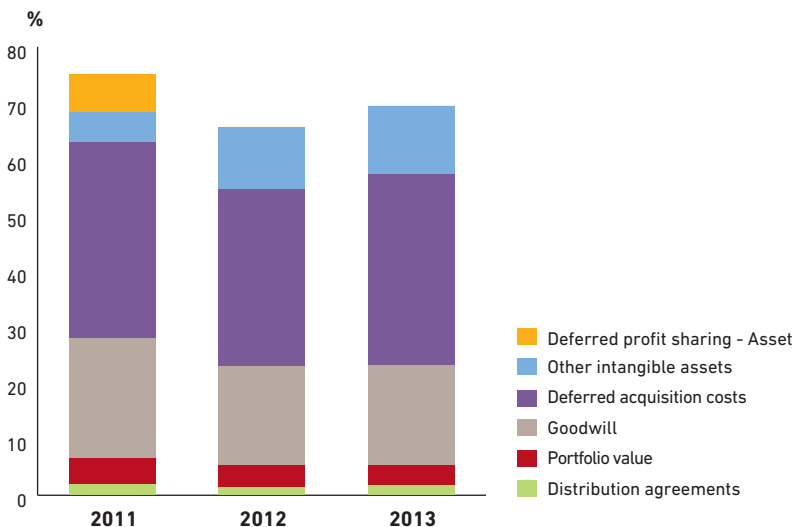
As is the case for goodwill, the recoverability of these assets is a hot topic for investors. The analysis of annual reports of the players of our sample has shown that all the types of assets shown in the chart above are subject to annual impairment testing, as prescribed by the standard. This testing is either

specific to the asset (as for distribution agreements, deferred acquisition costs or portfolio values) or carried out through the liability adequacy testing as prescribed by IFRS 4 (this applies to deferred participation assets for example).

However, we note that the level of information disclosed does not provide a good view of the headroom on these assets, although potential risk pooling effects – allowed by IAS 36 on impairment tests for goodwill at CGU level – are not possible on these assets which need to be tested at a more granular level, at entity level to the most.

Given their significant value in the insurers' balance sheets, even if the standard's requirements are met, the current disclosures do not make it possible to identify the headroom that insurers have on the recoverability of these assets.

Weight of intangible assets compared to equity



Conclusion

Despite the stabilisation of the economic environment and the relative weakness of impairment allowances on intangible assets compared to previous years, the financial information regarding impairment tests for intangible assets remains a major communication stake of insurance groups, in particular because of the materiality of these assets compared to equity and the small headroom above carrying values.

Overall, the financial year 2013 saw the gross amount of goodwill decrease because of divestments, of assets that most often had already been impaired during prior financial years. Given the improvement of the financial and economic environment, impairment allowances in 2013 are more limited than in 2011 and 2012.

Although they cover the majority of the requirements of IAS36, disclosures provided by the insurer in our sample are diverse, in particular with regards to sensitivity tests and the justification of assumptions.

This diversity in practices makes comparisons between groups difficult, which is even more prejudicial as they remain exposed to risks that might erode future plans and other assumptions chosen for the valuation of their activities.

As a consequence, impairment tests of goodwill and their sensitivity remain a focus point for readers of accounts who need to anticipate potential impacts of changes in key assumptions.

The diversity of practices observed on goodwill impairment tests is even greater for other intangible assets. Even though these are all subject to an impairment test, either specific or in the context of the liability adequacy test, disclosures are more limited whilst their financial stakes are equally material.



5. ANALYSIS OF THE MOST USED INDICATORS FOR PERFORMANCE MEASUREMENT - FEW MAJOR EVOLUTIONS IN 2013

In addition to their IFRS accounts insurance groups use other metrics to communicate on their performance. For life insurers, the Embedded Value is the main other figure communicated.

The Embedded Value as the main performance measurement of life insurance activities

This indicator has been particularly disparaged in the past due to its sensitivity to changes in financial assumptions and its lack of correlation with the insurance groups' market prices during 2008 to 2011. However, it remains an interesting measure for more than one reason:

- It remains one of the basic indicators to measure the profitability of life insurance activities and their ability to generate cash flows;
- It is the indicator that is closest to the prudential balance sheet in the Solvency 2 framework;
- It continues to be used by a majority of players to comply with IFRS 7 requirements on disclosures on sensitivity to market risks (IFRS 7 § 40 and §41).

5.1. Reminder of its definition and standard frameworks

EV is focused on the creation of value for the shareholder, as it takes into account:

- Discounting of future cash flows of contracts in the portfolio attributable to the shareholder ;
- New Business Value;
- Changes in the available capital.

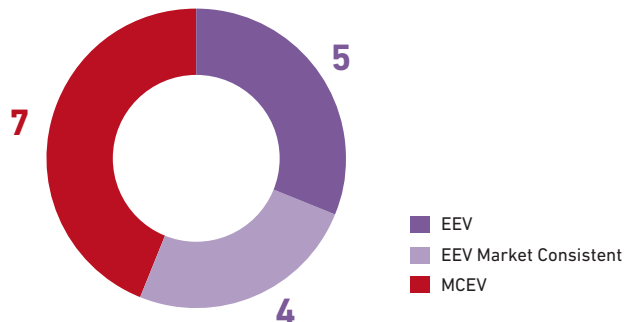
The principle behind the Embedded Value has changed following three generations of frameworks:

- The traditional Embedded Value, based on the projection of a deterministic scenario, with a cost of risk mainly reflected in the discount rate;
- The European Embedded Value (EEV), based on stochastic projections to capture the impact of remuneration asymmetries between insurance cover holders and shareholders;
- The Market Consistent Embedded Value ("MCEV") which corresponds to stochastic projections in a "risk neutral" environment that values financial assets under the assumption that arbitrage opportunities do not exist.

Today, more than half of the European players of our sample use the MCEV. The players that continue to publish an EEV mostly use a « market consistent » approach to calculate the time value of options and guarantees.

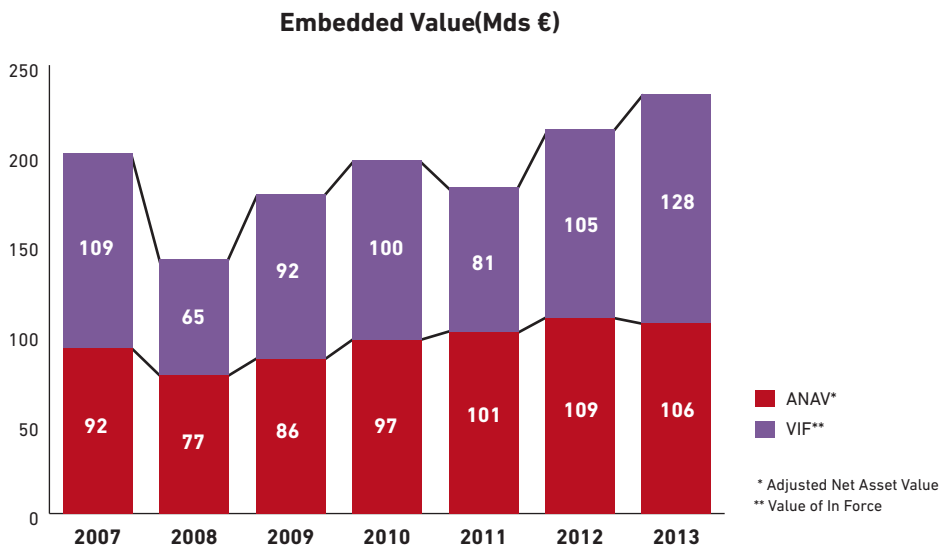
The main difference in the EEV and MCEV frameworks lies in the calculation of the cost of capital and in the way it is presented. None of the players of our sample made changes to the approach

used (the split by approach is detailed in the chart below), illustrating a certain status quo in the main methodological principles while waiting for a more significant change or even for the use of the reconciliation with the Solvency 2 prudential balance sheet once this is finalised.



5.2. 2013 Performances

The financial year 2013 saw an increase in most published EVs, due to the improvement in market conditions (stock markets and narrowing of sovereign spreads) despite the persistence of low interest rates.



5. Analysis of the most used indicators for performance measurement - few major evolutions in 2013

Indeed, the « market consistent » approaches are by nature very sensitive to changes in the financial environment. For example, we present below the sensitivities to economic assumptions published by Allianz:

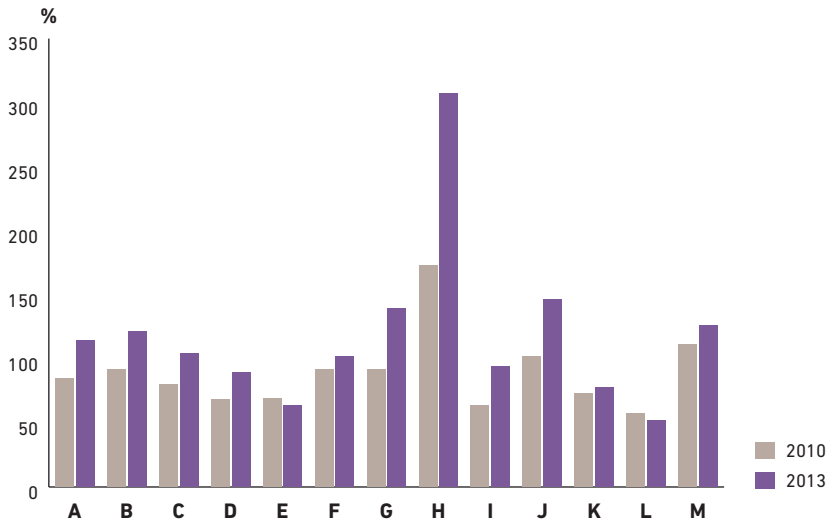
SENSITIVITIES		Exhibit 9		
€ MN	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	30,492	100%	952	100%
Required Capital equal to local solvency capital	748	2%	47	5%
EV change by economic factors				
Risk Free Rate – 100bp	-2,412	-8%	-115	-12%
Risk Free Rate +100bp	968	3%	24	3%
Risk Free Rate – 50bp	-969	-3%	-53	-6%
Risk Free Rate +50bp	584	2%	15	2%
Charge for CNHR +100bp	-831	-3%	-52	-5%
Equity values – 20%	-1,635	-5%	-50	-5%
Swaption volatilities +25%	-677	-2%	-28	-3%
Equity option volatilities +25%	-591	-2%	-35	-4%
EV change by non-economic factors				
Lapse Rates – 10%	539	2%	98	10%
Maintenance Expenses – 10%	795	3%	59	6%
Mortality + 15% for products with death risk	-494	-2%	-49	-5%
Mortality – 20% for products with longevity risk	-1,303	-4%	-38	-4%

Source: Allianz Group, MCEV Report 2013

A further decrease of interest rates in Europe is a significant risk for the profitability of the life insurance portfolios of the players in our sample.

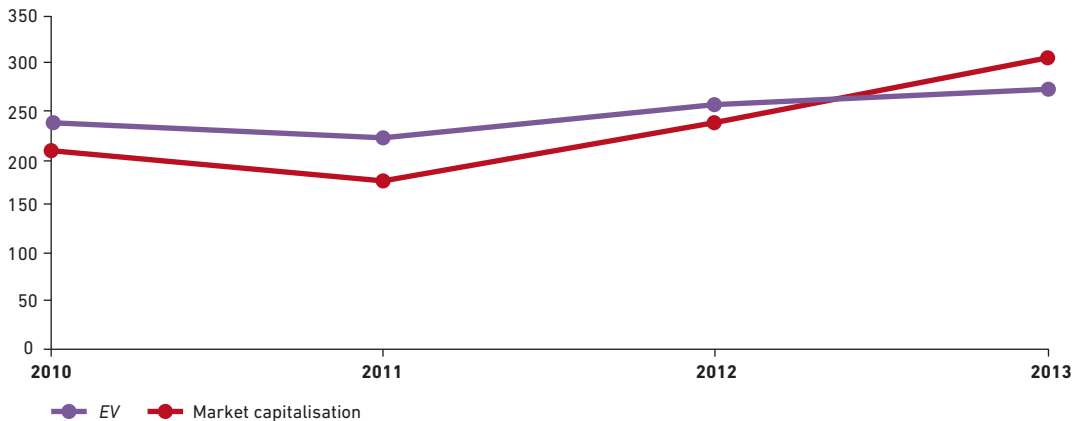
As in previous years, we looked at the market perception of this indicator, by looking at its contribution to the valuation of groups concerned. This link can be measured with the help of a multiple approach of the Embedded Value. The average ratio is increasing and, for the first time since the financial crisis, has increased to above 1.

Evolution of the Market capitalisation/ EV ratio between 2010 and 2013



We can see a more pronounced evolution of the market capitalisation compared to the EV: overall the market capitalisation of the companies of the sample increases by 39 % between 2011 and 2013 compared to an increase of 19 % for the Embedded Value.

Comparison EV / Market capitalisation (cumulative amounts in € bn) (*)



* Impact of model changes on the opening EV

However, this trend is different from one player to another as only 8 players out of 13 have a market capitalisation that exceeds the level of embedded value.

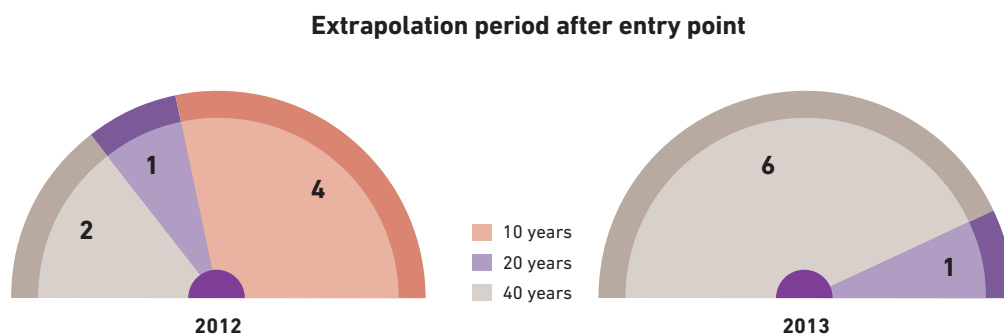
This ratio is very difficult to interpret given that non life activities can be more or less significant within the different groups. Indeed, the Group Embedded Value integrates the value of non-life and asset management activities to the level of their revalued net assets, which does not necessarily reflect the market value of these activities.

5.3. Comparability of assumptions and structural parameters

5.3.1. Extrapolation of the yield curve

After a financial year 2011 marked in terms of financial assumptions by the harmonisation of calculation methodologies of the liquidity premium, only few changes occurred in 2012 and 2013, with the exception of the extrapolation of the yield curve:

- In 2013, 4 players of the sample have chosen a convergence period of 40 years (10 years in 2012) to be consistent with the approach used for Solvency 2 purposes.

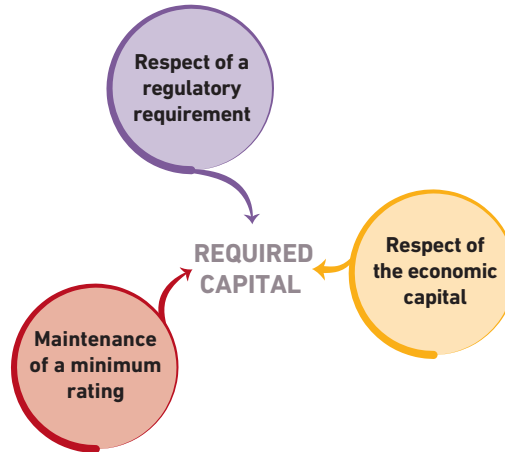


- Differences remain in particular in the chosen yield curve (starting point, speed of convergence to the ultimate forward rate).

There are thus few substantial changes, presumably in anticipation of the big leap towards Solvency 2. Moreover, the sensitivity analyses recommended by the CFO Forum on the liquidity premium are not always presented.

5.3.2. Required capital and Free surplus

The Free surplus corresponds to the capital exceeding the required capital. However, the understanding of what required capital is varies between market players:



The diversity noted on the definition of the required capital within our sample illustrates this disparity:

- **5** players refer to a percentage of the regulatory requirement;
- **1** player analyses the required capital as the capital allowing to maintain a minimum rating;
- **2** players define it as the maximum of a percentage of the regulatory requirement, the economic capital and the required capital to maintain a minimum rating;
- **1** player refers to the economic capital.

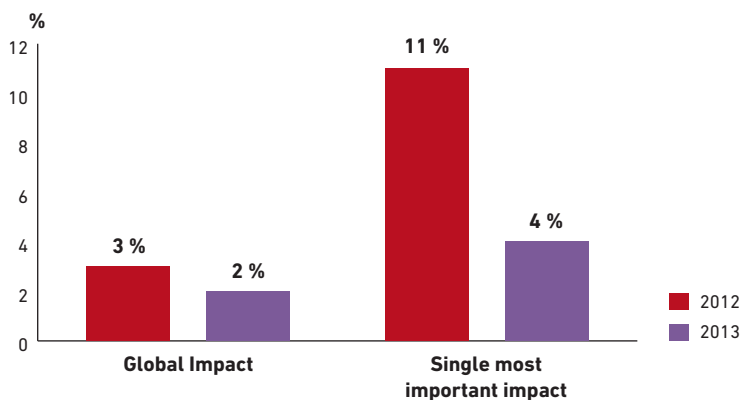
Company	Required capital
A	Minimum ratio
B	150% of the regulatory capital requirement
D	Maximum between the economic capital and the regulatory capital requirement
E	Regulatory capital requirement
G	Regulatory capital requirement
K	110% of the regulatory capital requirement
L	Economic capital
O	Maximum between the economic capital, the regulatory capital requirement and the capital required to maintain a minimum rating or an internal objective
P	Economic capital, regulatory capital requirement, 150% of the regulatory capital requirement

5.3.3. Stability in calculations

Most groups present their model changes or error corrections in the opening balances. Looking at the differences between prior year closing and current year opening balances gives the opportunity to judge the model stability.

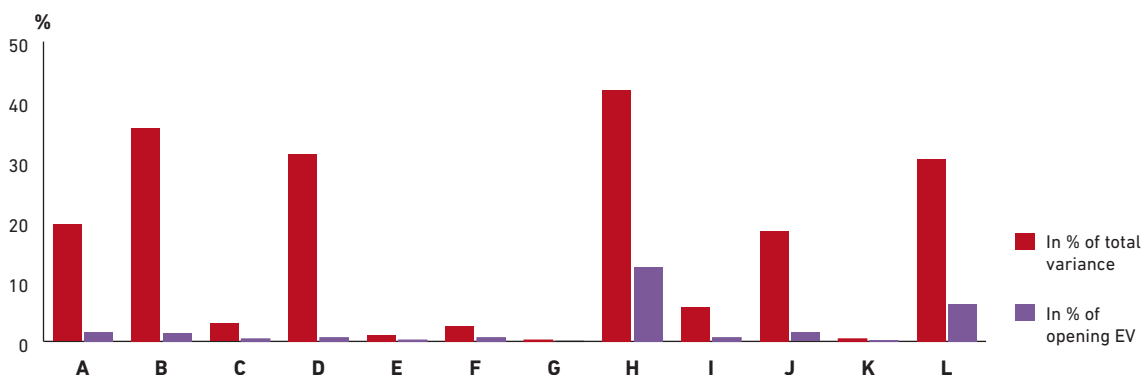
This year, one can note a decrease of these opening impacts, which could be explained by a greater maturity in the construction of the indicator, as insurance groups have reviewed their methodologies and reinforced their computation platforms for the purposes of the “best estimate” calculation of the Solvency 2 balance sheet.

Impact of model changes on the opening EV



The sensitivity of the Embedded Value and of its annual performance to changes in operational assumptions (excluding financial assumptions) are illustrated below:

Impact of changes in assumptions in 2013 (in absolute value)



5.4. What lessons can be drawn for the future Solvency 2 framework?

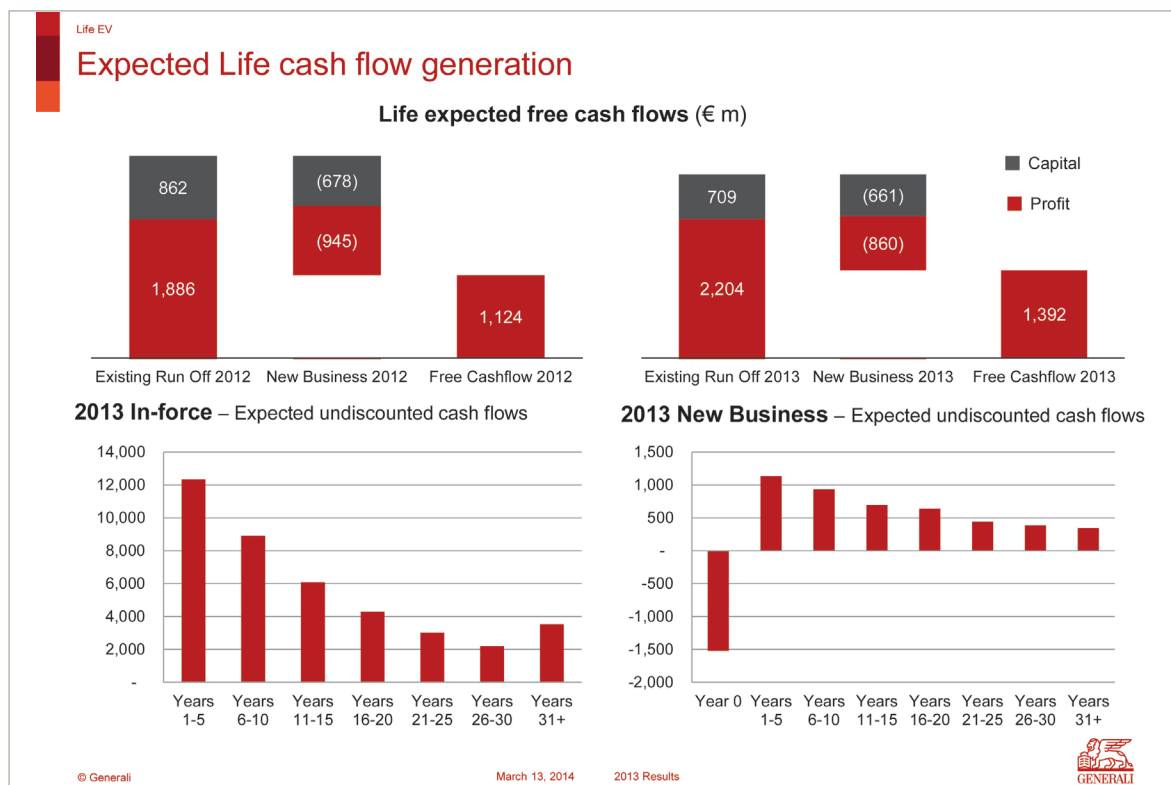
A high volatility can be observed on the Embedded Value indicator among our sample (on average, +15%, -10%, +18%, +10% in 2010, 2011, 2012 and 2013 respectively).

This volatility is mainly linked to changes in the market conditions via changes in financial assumptions.

It alludes to the volatility of the future prudential balance sheet of life insurance players, as the « best estimate » computation approach for provisions is in this regard similar to the Embedded Value approach.

5.5. Disclosures centred on Cash flows

The Embedded Value still has its place in the presentation of the results of the insurance groups but the focus on future cash flows takes precedence over its absolute value:



Source: Presentation of annual results, Generali 2013

This phenomenon can be explained by the complexity of the computations and their volatility. The disclosures focussing on cash flows can support the financial communication on the ability to pay out dividends.

5.6. Which future for this indicator?

The financial year 2013 appears to be a relatively stable year: few methodological changes noted and a progression of the Embedded Values in line with the financial market trends. The focus clearly continues to be the generation of cash flows.

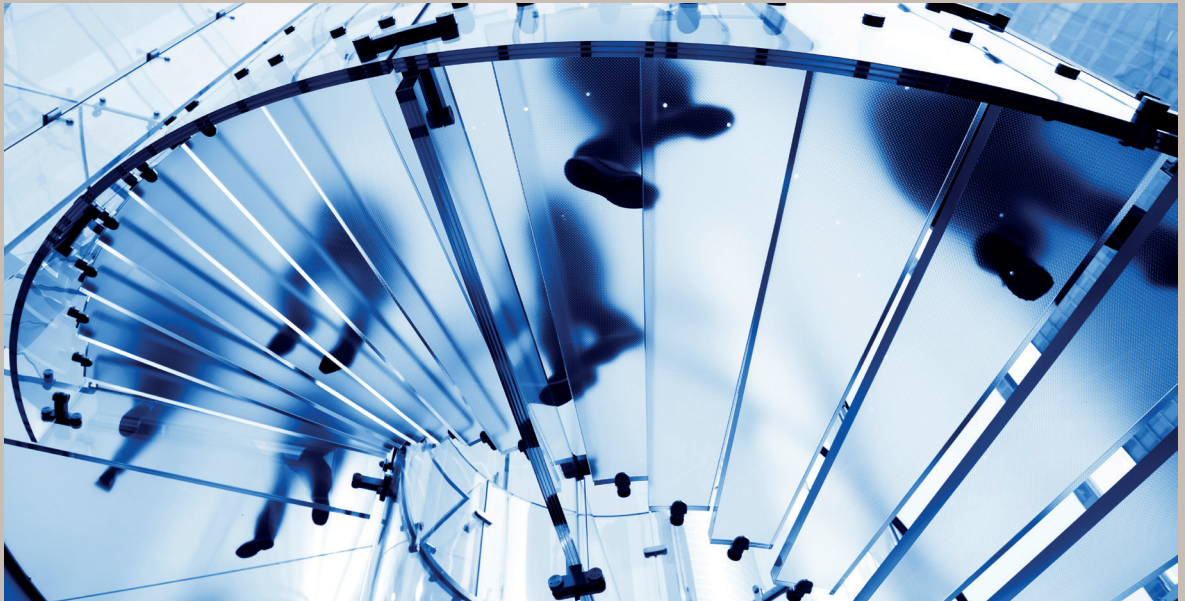
The consistency of frameworks and methodologies used is a recurring question and from our point of view it depends on the currently on-going finalisation of the future framework for the Solvency 2 regulatory balance sheet.

The link with Solvency 2 is so strong that one can legitimately wonder if the EEV will disappear and be replaced by a presentation of the shareholders' equity of the Solvency 2 balance sheet.

Some conceptual similarities would justify such a scenario for insurers: the « market consistent » view of both frameworks, the immediate recognition of the « in-force » and the modelling of « technical and financial » risks.

However, such a transition would be facing important sources for differences on the following aspects:

- Determination of the discount rate;
- Contract borders;
- Cost of capital...



6. SOLVENCY AND CAPITAL MANAGEMENT INDICATORS - WHAT DISCLOSURES ARE RELEVANT, GIVEN THE FINANCIAL AND REGULATORY CONTEXT?

Introduction

Since the occurrence of the financial crisis, investors have kept a close eye on the capital of large insurance groups both regarding its sufficiency and the effectiveness of its management and control, in a context of important regulatory changes and stress in the debt markets.

During the financial crisis, the solvency ratio (calculated according to the Solvency 1 directive) was a hot topic, bringing to light certain inherent limits within its computation method (the ratio does not take into account all risks to which insurers are exposed, particularly financial risks).

To meet analysts' expectations, the market players have enhanced their financial communication by presenting other capital management indicators. The information provided on capital management and more specifically the calculation of the economic capital has become more complex. The approach now tries to quantitatively measure potential impacts of risks on the insurers' balance sheet, using modelling.

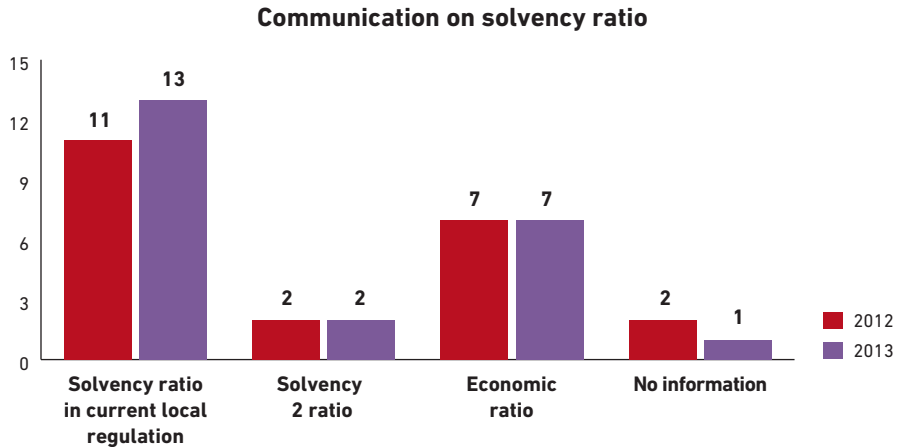
Thus, capital management is the focal point of the financial communication of insurers and now takes a more and more significant place in annual reports.

In addition, the regulatory Solvency 2 environment starts to become clearer, with the acceleration of the process at European level and the adoption of the "Omnibus 2" directive during the second quarter 2014, as well as the publication of transitory measures and the repetition of preparation exercises required by the regulators to ensure that the market is ready for 1 January 2016.

The main points we have chosen to analyse for our survey regarding the available disclosures on capital management are:

- Indicators chosen to measure the effectiveness of this management,
- A comparative analysis of quantitative information,
- An analysis of the informational content.

6.1. Solvency indicators



6.1.1. Solvency I

The solvency ratio calculated according to the current regulation remains a safe bet for the market. Its simplicity and regulatory credibility make it a preponderant indicator in any financial communication document. The disclosures only relate to the level of margin coverage.

Let us remind you that this indicator is also subject to diversity of approaches in its determination, as practices can be very different regarding in particular asset admissibility in different local regulations.

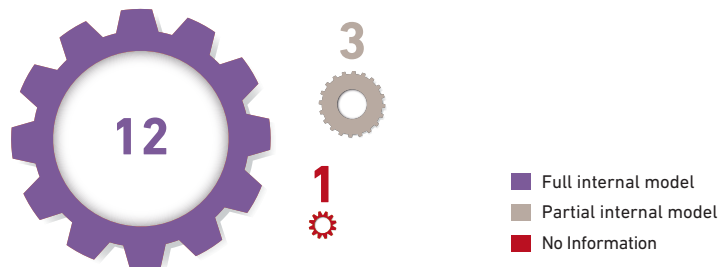
6.1.2. Solvency II

Given the uncertainty that is inherent to the current state of the legislation, only two players disclose which would be their coverage ratio under Solvency 2.

It is at this stage difficult to identify the choice of certain players with regards to the use on an internal model, a partial internal model or the standard formula for the purposes of Solvency 2.

We understand that the majority of players turn towards the implementation of an internal model.

Framework used



Most players using an internal model provide information on:

- the current use of the model in the Asset/Liability management (for those that adopt an existing model to Solvency 2 requirements),
- the status of discussion with the regulator regarding the pre-approval process of the internal model.

6.1.3. Economic capital

Within our sample, although the vast majority of insurers have an internal model, only seven players provide a coverage ratio for the economic capital. Even fewer players communicate on the « Solvency 2 » ratio, given the uncertainties that are inherent to the current state of the legislation.

The following assumptions are not detailed for the most part:

- certain players use a different quantile from that chosen in the Solvency 2 framework (99.5%),
- among those which specify the quantile used, no player specifies the methodological differences between the economic capital model and Solvency 2.

And even fewer present:

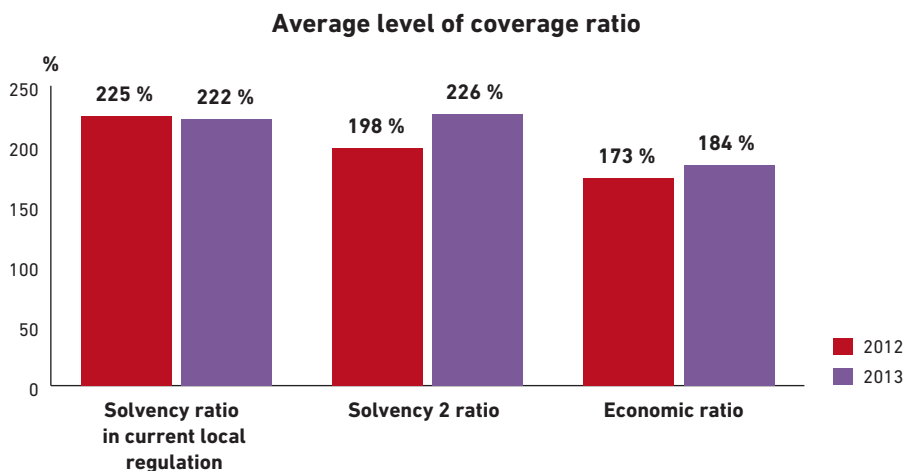
- figures by risk, by geographical zone, etc.,
- methods used and calculation assumptions used by risk (except the quantile),
- sensitivity analysis.

This illustrates that at this stage there is a lack of information allowing a comparative analysis of the economic capital.

The consolidation of the main solvency information in a report intended for public release (requirement of Pillar 3 of the Solvency 2 directive) will give the opportunity to carefully reflect on how key information should be communicated.

6.2. Comparison of quantitative information

The changes of the ratios is illustrated below:



Whilst the Solvency 1 ratio remains stable, the economic and Solvency 2 ratios show a more notable change compared to last year. The increase of the coverage ratio of the economic capital is difficult to explain due to the multiplicity of underlying risk players, even if the favourable evolution of the financial markets in 2013 has necessarily had a preponderant role regarding the positive evolution of credit spreads and of the level of stock markets.

Some disclosures, as the analysis of the evolution of the economic capital which had been considered to be good practice from some players in our survey from last year, were not presented this year.

In the context of the implementation of the new prudential Solvency 2 framework, one can note that the economic capital ratios presented by most players are at first sight satisfactory (on average around 184%). However, it would be premature to foresee their compliance with the final Solvency 2 requirements as the ratios are in most cases based on an economic capital model of which certain assumptions can differ from those in the final texts. The finalisation of the framework will allow freezing the key methodologies.

6. Solvency and capital management indicators

What disclosures are relevant, given the financial and regulatory context?

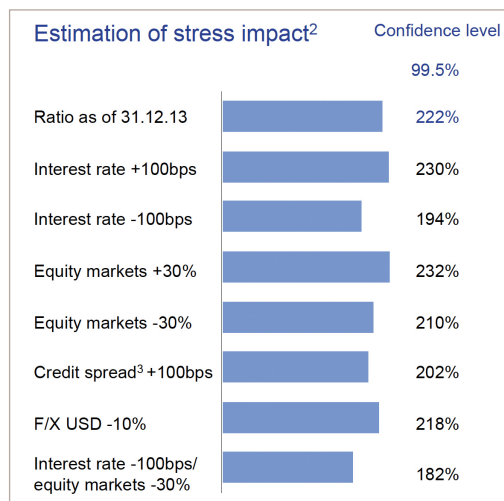
The insurers that are part of the sample disclose only limited additional information such as:

- information regarding the sensitivity of the economic capital models and their integration in the ALM process, which would constitute an interesting source of information for investors and the regulator (use-test);
- the weighting by risk type (financial, underwriting (P&C, Life), operational);
- the diversification taken into account in the models which are useful for players to appreciate the insurers' robustness;
- the link between the capital management strategy and the quantified information.

The two extracts below are examples of good practices that we have identified within the sample:

Economic risk capital – Breakdown by risk category							Development of Group ERC	
Risk category	Group		RI	PI	MH	Div.	€bn	
	2012	2013	2013	2013	2013	2013	ERC 31.12.2012	ERC 31.12.2013
Prop.-casualty ¹	9.7	9.0	8.9	0.6	0.0	-0.5	27.3	-0.7
Life and health	7.2	5.8	4.4	2.1	0.5	-1.2	-1.4	-2.4
Market	14.0	11.6	6.6	7.1	0.0	-2.1	-0.4	0.0
Credit ²	6.7	6.3	4.3	2.1	0.0	-0.1	1.3	
Operational risk	1.4	1.4	1.1	0.5	0.1	-0.3		
Simple sum	39.0	34.1	25.3	12.4	0.6	-4.2		
Diversification	-11.7	-10.4	-8.5	-2.8	-0.1	-		
Total ERC	27.3	23.7	16.8	9.6	0.5	-3.2		

Source: Presentation to analysts Munich Re 2013



Source: Presentation to analysts Allianz 2013

The trend noted on our sample is a status quo of the information provided with regards to the upcoming of the reform, highlighting the wait-and-see approach adopted by insurers in that matter.

6.3. Analysis of the informational content

The implementation of Solvency 2 also led the various players to communicate on preparatory and compliance work for Solvency 2 purposes.

The qualitative information is mainly concentrated in the annual report which includes matters related to Solvency 2 and the operational impacts caused, by addressing among others:

- the participation in preparatory exercises and long term guarantee assessments involving the development of asset-liability management tools,
- the status of discussions with the regulator regarding the pre-approval process for the internal model,
- work undertaken regarding risk management and the ORSA.

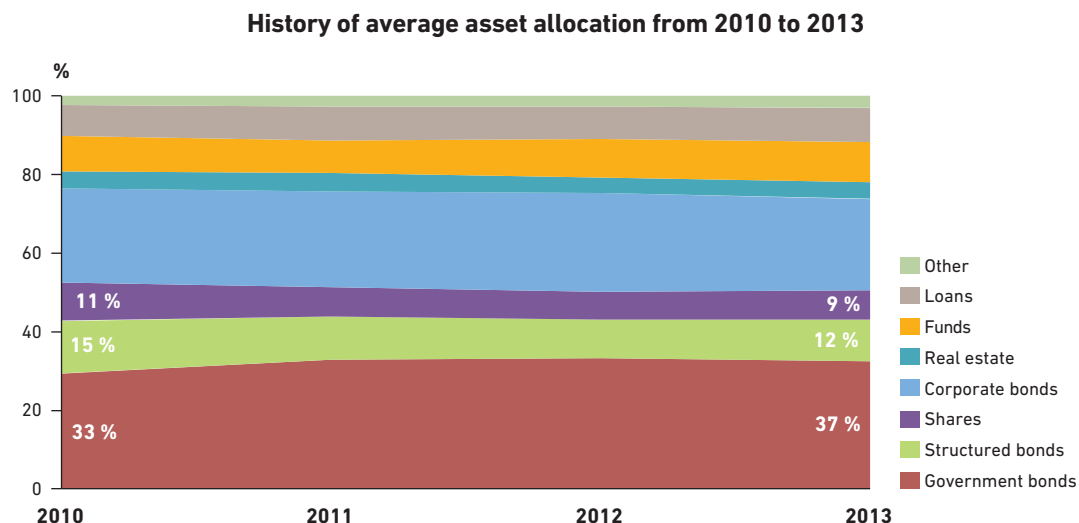
The « Omnibus 2 » directive was voted after the publication of the 2013 annual accounts by all players in our sample, but it remains nevertheless true that the 1 January 2016 deadline will come about very quickly. However, the insurance groups in our sample give few perspectives on the next big steps, as for example their ability to produce the reporting required by the regulators within the deadlines, which are particularly short for financial groups.

This regulatory change will substantially modify the way in which insurers manage their businesses. As a matter of fact, this principle is included in the ORSA exercise which requires solvency consideration to be taken into account when making strategic decisions. It is still too early to observe this type of information in the public documents; however certain insurers have already integrated these new rules in the management policies, more specifically regarding investment decisions.

Indeed, the retrospective analysis over the past four years of the average asset allocation within our sample shows that insurers have preferred buying government bonds or public company bonds which are not subject to the credit risk in the Solvency 2 framework, over investing in stocks and structured products which are heavily penalised in the calculation of the capital requirements. It should be noted that these evolutions are even more important as the asset value has been impacted during the past years by the upturn in the stock markets and a persistent pressure on the debt of certain Euro-zone countries.

6. Solvency and capital management indicators

What disclosures are relevant, given the financial and regulatory context?



Conclusion

As for the Embedded Value, few major evolutions can be noted in the publications of insurance groups regarding capital management.

The integration of an economic capital indicator in the strategy of the different groups is more and more frequently disclosed in their financial communication. Capital management and mitigation of risks thus appear to be hot topics for them. Pillar 2 seems to be implemented, based on the communications made by the large groups.

However, quantitative detailed information is at this stage almost inexistent, in particular regarding the illustration of risk policies on capital indicators, in a natural wait-and-see context, before the definitive setting of parameters of the Solvency 2 framework.

CONCLUSION

Few structural evolutions are noted in the information published this year by insurers, with the exception of the application of IFRS 13, which however only has a very limited impact.

With regards to accounting matters, the observations made during our previous surveys are still relevant – the methods used and the chosen accounting treatments appears to be, on their structural aspects, diverse between European insurance groups. The favourable financial context this year however reduces the impacts on the results, in particular with regards to asset impairment.

A wait-and-see approach is the current state for everything related to the publication of quantitative indicators (Embedded Value, Economic Capital), with the setting of all parameters of the Solvency 2 reform to be effective in the following months. The qualitative information on capital management has overall improved over the past years and it mainly remains to be illustrated by quantified data.

In the short term we expect a very significant evolution, with the Directive entering into force, and the likely integration of public information on risk and capital management in the financial communication. From the point of view of the accounts, the perspectives of the implementation of IFRS 4 phase 2 are likely to become clearer and they will potentially lead to adaptations linked to the convergence to the new framework.

FINANCIAL COMMUNICATION TRENDS OF INSURANCE GROUPS

2010 - 2015

SAMPLE

European insurance and reinsurance groups included in our survey



CONTEXT

2010 - 2012

CRISIS
Economic and financial crisis



VOLATILITY
High market volatility

LOW
Low interest rates



STAGNATION of major global economies

2013



INCREASING
stock prices

INTRODUCTION Solvency 2



ECONOMIC ENVIRONMENT
more stable

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