Standard No. 12

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

STANDARD ON DISCLOSURES CONCERNING TECHNICAL RISKS AND PERFORMANCE FOR LIFE INSURERS

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Contents

1. Introduction

1. IAIS Insurance *core principles and methodology* (October 2003) ICP 26 states that supervisory authorities are to require insurers to disclose relevant information on a timely basis in order to give market participants[1] a clear view of the business activities and financial positions of the insurers, and to facilitate the understanding of the risk exposures of the insurers. Armed with this understanding, market participants will be better able to reward insurers that are transparent and operate effectively, and penalise those that are less transparent.

2. The IAIS decided to issue three standards on enhanced disclosure in order to promote meaningful disclosure by insurers that facilitates market discipline. This is the third of the three standards.[2]

3. This standard should be read together with:

- the IAIS *Insurance core principles and methodology* (October 2003) (ICPs), in particular ICP 26 - Information, disclosure and transparency towards the market - and the related criteria
- the IAIS *Standard on disclosure concerning technical performance and risks for non-life insurers and reinsurers* (October 2004)
- the IAIS *Standard on disclosure concerning investment risks and performance for insurers and reinsurers (October 2005)*
- the IAIS *Guidance paper on public disclosure by insurers* (January 2002) that contains general guidance on public disclosure and
- the IAIS *Guidance paper on investment risk management* (October 2004)

2. Scope, application and implementation

4. The purpose of the standard is to enhance market transparency and to facilitate market discipline by setting minimum disclosure requirements concerning technical risks and performance for life insurers and reinsurers. Standard setters may require additional public disclosure when circumstances require.

5. The examples provided in the different sections of this standard are neither prescriptive nor exhaustive. Insurers are encouraged to provide additional details that are relevant to their particular nature and circumstances.

6. The insurer should disclose information that reflects the technical risks it is exposed to through its life insurance business. Qualitative and quantitative information should be provided where relevant.

7. It is important that supervisors require disclosure of sufficient qualitative information at solo and group level to enable an overall technical risk profile to be determined.

8. This standard requires disclosure in the following areas:

- Company Profile
- Technical Risks
- Technical Provisions

[1] For the purpose of this standard, market participants include policyholders, insurers, shareholders, equity analysts, insurance agents and brokers, rating agencies, and the media.

[2] The Standard on disclosures concerning technical performance and risks for non-life insurers and reinsurers was adopted in October 2004. The Standard on disclosures concerning investment risks and performance for insurers and reinsurers was adopted in October 2005. A comprehensive review will be conducted on the three disclosure standards subsequently, with a view to combining them into one single standard.

- Capital Adequacy Position
- Portfolio Segmentation and Description
- Performance Measurement.

9. This standard applies to all life insurers (including reinsurers), with limited exemptions available to captives at the discretion of the insurance supervisor of each jurisdiction.[3] This standard should, at a minimum, apply to each insurer in an insurance group or financial conglomerate.[4] Supervisors may also apply this standard on a consolidated basis to the group or conglomerate.

10. Insurance supervisors who have the authority to set public disclosure standards should set disclosure requirements that are consistent with this standard. Otherwise, insurance supervisors should encourage the relevant standard-setting body to do so.

11. This standard is consistent with existing public accounting requirements in each jurisdiction and should be viewed as providing additional insurance-specific disclosures that an insurer should make. Public disclosures made under accounting, listing and other requirements should be relied upon to fulfil the equivalent requirements of this standard.

12. Supervisors should use their discretion in determining the appropriate medium and format of the disclosure in implementing this standard. The disclosures set out in this standard should be made at least on an annual basis.

13. Supervisors should determine the process under which the concepts for materiality and proprietary/confidential information will be applied to the requirements set out in this standard. In addition, supervisors should consider the cost of additional disclosures.

14. Annex 1 to this standard provides examples of how some of the requirements for quantitative information may be satisfied. The format adopted when implementing the standard should assist market participants in enforcing market transparency and discipline.

3. Disclosure requirements

3.1 Company Profile

Introduction

15. The disclosures provided in the Company Profile section should describe the intrinsic nature of the business and the external environment in which the insurer operates. The purpose of this section is to assist market participants in assessing the strategies adopted by the business. It is the responsibility of the insurer to decide how best to structure and present the information.

16. Disclosure at an excessive level of detail may overwhelm market participants and incur unnecessary costs for the insurer. It is also expected that the insurer should avoid generic disclosure. The overall aim of the disclosures is to provide a contextual framework to the quantitative information provided in the financial statements.

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3 A supervisor can decide not to apply this standard to "captives" that are considered insurers or reinsurers in the legislation of its jurisdiction, provided there is no potential threat to the financial system, no public interest need for disclosure and no legitimately interested party is prevented from receiving information. For the purpose of this standard, "captive" shall mean an insurance or reinsurance entity created and owned by one or several industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, and only a small part, if any, of its risk exposure is related to providing insurance or reinsurance to other parties.

4 In deciding the reporting entity, consideration should be given to the rights of various market participants including policyholders.

Business overview

17. The insurer should disclose the nature of its business and the external environment in which it operates.

18. The insurer should disclose information about its corporate structure focusing on material aspects both in terms of the legal entities within the corporate structure and the business functions undertaken within the group. The disclosures should include any material changes that have taken place during the year.

19. The insurer should also disclose the main trends and factors that have contributed positively or negatively to the development, performance and position of the firm.

20. The insurer should disclose its competitive position and its business models (such as its approach to dealing and settling claims, acquiring new business, etc). It should also disclose significant features of regulatory and legal issues affecting the business.

Objectives and strategies

21. The disclosure should provide information to the market on the insurer's objectives and the strategies in place to achieve them.

22. The insurer should disclose its financial and non-financial objectives, along with the time frames and the strategies for achieving them. This disclosure will enable market participants to assess these objectives and the insurer's ability to achieve them. The insurer should also explain significant changes in strategy compared to prior years.

23. The insurer should disclose the range of risks it faces, including the key external and internal risks and opportunities that may affect its ability to achieve its objectives. The insurer should also disclose the impact of such risks and how the entity is planning to manage them.

24. The insurer should describe the key resources and the risks that could have an impact on its objectives. Key resources should include both the financial and non-financial resources available. For non-financial resources the insurer could, for example, provide details of its human and intellectual capital, processes, systems and reputation.

Results review and key performance indicators

25. The insurer should provide qualitative information explaining the development and performance of the business during the period under review and its position at the end of that period. The disclosure should focus on the business areas that are relevant to the insurer.

26. The insurer should disclose the key measures and indicators it uses to assess and manage performance, including changes in methodologies. It should also include indicators that are being used to monitor external trends and factors that are beyond the control of management.

3.2 Technical Risks

Technical risk management

27. The insurer should provide information on its objectives and policies for technical risks.

28. This disclosure should include a description of the insurer’s appetite for technical risks and its policies for identifying, measuring, monitoring and controlling technical risks.

The disclosure should be consistent with how the risks are being managed, including information on the models and techniques used.

Risk mitigation

29. The insurer should disclose how it uses reinsurance or other forms of risk transfer to help to control its exposure to technical risks.

30. The insurer should disclose the impact and planned action when the expected level or scope of cover from a reinsurance/risk transfer contract is not obtained.

31. The insurer should disclose the policies it uses to hedge and mitigate technical risks.

3.3 Technical Provisions

Determination of technical provisions

32. The insurer should provide qualitative and quantitative information on the determination of the technical provisions.

33. Where any assumptions used are not based on the current experience of the insurer, details should be given about the method used to derive the assumptions. The reasons for using assumptions different from current experience should be disclosed. Information should also be provided on significant changes in assumptions.

34. Depending on the method used to determine technical provisions, the disclosures should distinguish between the calculation of the current estimate and margin over the current estimate.

Methodology

35. The insurer should disclose the methodology used and the key assumptions employed in determining the technical provisions.

36. The insurer should disclose whether provisions are determined on a deterministic, stochastic or other basis and the reasons for the choice of methodology. If the methodology has changed since the last reporting period, the insurer should disclose the reasons for the change.

37. If a stochastic approach has been adopted, the insurer should outline the model or models used and describe how the range of assumptions regarding future experience has been derived.

38. A description should be provided of any method used to treat acquisition costs and whether future profits on existing business have been recognised.

39. The insurer should disclose if the methodology gives rise to any negative technical provisions and, if so, the amount. The insurer should disclose how they are treated before the technical provisions are aggregated.

40. The insurer should disclose if the technical provisions of policies (net of acquisition costs and any recognised future profits on existing business) are lower than the surrender values and the net amount.

Discount rates and investment returns

41. The insurer should describe the rationale for its choice of discount rates.

42. The insurer should disclose the rationale for determining discount rates, for example, whether they are based on:

- fixed assumptions (e.g. as laid down by regulations)
- general economic criteria (e.g. the rates of return on government securities)
- actual rates of return on assets matching the liabilities.

43. The insurer should disclose information on the ranges of actual discount rates used. The insurer should explain how the chosen discount rates fit in with the overall valuation method and principles.

44. The insurer should disclose the sensitivity of the provisions to specified changes in discount rates.

45. The insurer should disclose how the discount rates are related to the investment return assumptions and the impact of any differences.

Expenses

46. The insurer should disclose the rationale for determining the expenses to be included in the technical provisions.

47. If the expense assumptions take credit for a future reduction in expenses, then the reasons for this reduction (e.g. a future systems development) should be disclosed.

48. The insurer should disclose the sensitivity of the provisions to a specified change in the expense assumptions.

Mortality and disability rates

49. The insurer should disclose the rationale for the choice of mortality tables and disability rates.

50. The insurer should disclose key information on the assumed rates and the method of deriving future mortality and disability rates and whether customised tables are applied. The insurer should disclose significant assumptions about future changes on mortality and disability rates.

51. The insurer should disclose sensitivity analysis to the changes in mortality and disability assumptions.

Participation features

52. The insurer should disclose the basis for valuing the impact of any participation rights[5] by policyholders in the surplus or profits of the company. If appropriate this should include future bonus rate assumptions.

53. The insurer should disclose the conditions for the amount and timing of the allocation of participation features. Disclosure should be made as to whether participation features are contractually based on the performance of a group of contracts or whether they are based on the realised/unrealised investment returns from a pool of assets, or on the profit or loss of the company, or on any other element, and whether or to what extent they are discretionary.

Guarantees and options

54. The insurer should describe the guarantees and options to which it is contractually obliged.

[5] The disclosure should comprise any additional benefits, which are, e.g. performance linked, discretionary or voluntary.

55. The insurer should disclose the assumptions and methodologies employed to value significant guarantees and options, including the assumptions concerning policyholder behaviour.

56. The insurer should disclose a sensitivity analysis on significant changes in customer behaviour in absolute terms and its impact on the profit and loss account.

Mismatching provisions and other provisions for contingency

57. Disclosure should be made of any provisions held as a consequence of a mismatch between assets and liabilities.

58. The insurer should disclose the sensitivity of these mismatching provisions to changes in the value of assets and changes in the discount rate or rates used to calculate the value of the liabilities.

59. Where other allowances for contingencies are included in technical provisions, insurers should disclose the amount, purpose and the basis for calculation of such allowances.

Reinsurance

60. The insurer should disclose the impact of reinsurance in reducing technical provisions.

61. If relevant, the extent to which technical provisions have been reduced to reflect sums recoverable (or by holding an offsetting asset) under reinsurance contracts should be disclosed, together with provisions set up to cover the related credit risk.

Capital Adequacy Position

62. The insurer should disclose information on its objectives, policies and processes for managing its capital. The insurer should disclose information on the capital available to cover regulatory capital requirements. Disclosure should also promote the understanding of risks and measures which influence the capital calculation.

63. The insurer should disclose quantitative information that would allow market participants to assess the quality of its capital. In particular it should set out the components of available capital and the amount of capital it holds in each component, referencing changes from previous periods. An example is given in Annex 1 Table 7.

64. The Insurer should disclose qualitative information about the following items and how these are incorporated into the insurer's management of capital:

- capital requirement regime
- instruments regarded as available capital
- the policies and processes for managing capital
- key risks and measures which influence the current capital calculation.

Portfolio segmentation, description and profiling

65. The insurer should disclose information on its segments. For each segment, the criteria upon which the portfolio has been segmented should be disclosed, e.g. the number of contracts or of policyholders.

66. The insurer should disclose how its portfolio is segmented as this allows meaningful analysis of risks and performance. A business segment is a distinguishable component of the portfolio that is engaged in providing products or services that are

subject to risks and returns that are different from those of other business segments. Examples of features by which business is segmented are:

- type of contracts: individual or group, participation or non-participation
- type of risks: death benefit, endowment, annuities or disability
- premium structure: single payment or regular payment, variable amount or fixed amount

67. This standard does not intend to prescribe a specific format for the disclosure of portfolios. It invites jurisdictions - when implementing the standard – to develop a format which is applicable to the insurance industry.

Organisation of business

68. The insurer should disclose the relationship between its organisational structure, internal financial reporting system and management of segments.

Profit sharing

69. The insurer should disclose any segmentation of its portfolio that derives from participation features.

3.4 Performance measurement

Segmented Results

70. The insurer should disclose the performance of its business at a sufficiently segmented level. The disclosure by segments can take the form of an income statement. An example is given in Annex 1 Table 1.

Disclosure of Technical Provisions

71. The insurer should disclose technical provisions by segment with reference to changes from the prior year. An example for the quantitative disclosure is given in Annex 1 Table 2.

72. The insurer should disclose a reconciliation of technical provisions from the end of the previous year to the end of the current year. An example is given in Annex 1 Table 3.

Asset-liability Management

73. The insurer should disclose information on asset-liability management (ALM) at a segmented level. Disclosure should be made for the segments that are ALM sensitive, in accordance with the IAIS *Standard on asset-liability management*. An example is given in Annex 1 Table 4.

Source of Earnings

74. The insurer should disclose a quantitative source of earnings analysis at a sufficiently segmented level. An example is given in Annex 1 Table 5.

Sensitivity Analysis

75. The insurer should disclose a quantitative analysis of its sensitivity to changes in key assumptions. An example is given in Annex 1 Table 6.

Participation Features

76. The insurer should disclose the terms and conditions of with-profits products. Examples of such terms and conditions are:

- If there is a surplus in a with-profits fund, 90% must accrue to the with-profits policyholders and only 10% may be transferred to shareholders. In some jurisdictions, this is referred to as the legal quote.
- In some jurisdictions, insurers may commonly credit more than 90% to with-profits policyholders.
- Where demutualisation has taken place, all surplus in with-profits funds belong exclusively to the with-profits policyholders in the funds.

77. The insurer should disclose quantitative information on minimum participation features and actual distributions to policyholders.

78. In some jurisdictions statutory minimum distribution ratios exist for certain types of business. The insurer should disclose the minimum ratios and the ratios actually used for past periods. Where different ratios are applied to different contracts, the various ratios and information about the respective contracts should be disclosed for the past year.

79. For example, following quantitative information should be shown by segment:

- technical interests credited to provisions
- guaranteed policyholder benefits paid
- additional policyholder benefits paid which arise from profit sharing clauses.

4. Annex 1

This Annex 1 to this standard provides examples of how some of the requirements for quantitative information may be satisfied. A different format from that given may be adopted where it assists market participants in enforcing market discipline.

Table 1
Income Statement

	Segment A		**Segment B**		**Total**	
	Current Year	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Net Premiums						
Net Investment Income						
Other Income						
Payments to Policyholders						
Change in Technical Provisions						
Policyholder bonuses						
Acquisition Costs						
Acquisition Costs Amortised						
Administration Expenses						
Other Expenses						
Income Taxes						
Net Income						
Other Comprehensive Income						

- All amounts can be net of reinsurance ceded.
- 'Payments to Policyholders' include death claims, surrender benefits, maturity benefits, interest credited and annuity payments.

Table 2 Technical Provisions		
	Current Year	**Previous Year**
Business Segment		
Segment A		
Segment B		
Segment C		
Etc.		
Total		

Table 3 Reconciliation of Technical Provisions						
	Segment A		**Segment B**		**Total**	
	Current Year	**Previous Year**	**Current Year**	**Current Year**	**Current Year**	**Previous Year**
Balance, Start of Year New Business Acquisitions Due to Policyholder Payments In-Force Movement Changes in assumptions & methodology and other management actions Currency adjustments Balance, end of year						

The following is an explanation to some of the lines above:

- New Business: When a new policy is sold by an insurer, there will be a change in the technical provisions. The size of the change depends on the type of policy involved. In some jurisdictions there is also an effect caused by the amortised acquisition costs.
- Due to Policyholder Payments: Technical provisions are reduced in the case of surrenders, maturities, death payments, lapses and other payments to policyholders. Technical provisions are increased by renewal premiums and policyholder dividends used to purchase additional insurance.
- In-force Movement: The technical provisions for policies in force at the start of the year, and still in-force at the end of the year, will usually increase. This is due to the age of the policyholder increasing and due to interest credited to the policy during the year.
- Changes in assumptions & methodology and other management actions: The technical provisions can change if the insurer decides to change any of the assumptions during the period. Some management actions can also affect the level of technical provisions. An example is the entering into of a new reinsurance treaty for in-force business.

Table 4
Duration of Assets and Technical Provisions

	Segment A		**Segment B**		**Total**	
	Current Year	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Duration of Assets						
Duration of Technical Provisions						

Table 5
Source of Earnings

	Segment A		Segment B		Total	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Expected earnings on in-force business						
Impact of new business						
Experienced gains and losses: Investment Mortality Expenses Other						
Management actions						
Changes in assumptions						
Earnings on surplus						
Other						
Income taxes						
= Net income						

Certain lines in the above analysis could be split into more detail. An example is “Experienced gains and losses” which could be split into interest earnings, mortality gains, lapse gains, expense gains, etc.

The following is an explanation of some to the lines above:

- Expected earnings on in-force business: This represents the earnings on the in-force business that were expected to be realised during the reporting period based on achieving the assumptions used to calculate the technical provisions. Examples of this include expected release of risk margins, net management fees, and earnings on deposits.
- Impact of new business: This represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new technical provisions established at the point of sale. This item is also affected by any methodology used to defer and amortise acquisition expenses.
- Experienced gains and losses: This represents gains and losses that are due to differences between the actual experience during the reporting period and the technical provisions at the start of the year, based on the assumptions at that date.
- Management Actions and Changes in Assumptions: See the definitions under Table 3 above.

Table 6
Sensitivity Analysis of Technical Provisions by Major Assumption

	Segment A		Segment B		Total	
	Current Year	**Previous Year**	**Current Year**	**Previous Year**	**Current Year**	**Previous Year**
Interest Rates: Expected Income Actual Income Ratio A/E Effect of 1% Decrease in Yield Curve **Mortality Rates**: Expected Claims Actual Claims Ratio A/E Effect of 1% Increase in Mortality Rates **Admin. Expenses**: Expected Expense Actual Expenses Ratio A/E Effect of 1% Increase in Administration Expenses **Surrenders**: Expected Surrenders Actual Surrenders Ratio A/E Effect of 10% Increase in Surrenders Effect of 10% Decrease in Surrenders Etc.						

Table 7
Regulatory Capital

	Current Year	Previous Year
Available Regulatory Capital		
Permanent Capital		
Non-permanent Capital Instruments		
Regulatory Deductions from Public Financial Statement Capital		
Other Capital Adjustments		
Total Available Regulatory Capital		

The following is an explanation to some of the lines above:

- Permanent Capital: This could include common shares, retained earnings, permanent capital instruments, etc.
- Non-permanent Capital Instruments: Examples of these could include limited life preferred shares, subordinated notes, etc.
- Regulatory Deductions from Public Financial Statement Capital: Examples of this could be goodwill or intangible assets.
- Other Capital Adjustments: For some jurisdictions, this could include unrealised capital gains, excess margins in technical provisions, etc.