



**APS10**

8<sup>th</sup> Seminar on Current Issues in Life Assurance

A presentation by Mark Saunders and James Creedon

29 November 2012

# Agenda: Some food for thought – ROLE and RESPONSIBILITY

- IPOs and the actuarial profession
- APS 10
- ...

# IPOs are big news -- The importance of doing it right

## **PICC to delay its IPO**

*Wall Street Journal, 27<sup>th</sup> June 2012*

## **PICC mulls delay for A-share offer**

*South China Morning Post, 4 September 2012*

## **PICC: Leaner pickings**

..cut back the proposed price tag...from an original estimate of up to \$30.5bn to \$15.4bn-\$18.2bn.

*Financial Times, 21<sup>st</sup> November 2012*

## **China insurers – PICC and mixed**

Up to 17 banks – a global record – will take some credit...

More than half the deal has gone to these big names (cornerstone investors)....Would-be investors must ask why the company felt the need to do this if it was confident in its own prospects.

*Financial Times, 25<sup>th</sup> November 2012*

## **PICC Listing bucks trend with higher underwriting fee**

..agreed an underwriting commission of 2.5%..share up to US\$90m

*International Financing Review, 22 November 2012*

## Some key considerations for the profession

1. Hard work
2. High risk
3. New world ... under microscope

**In India the role of the actuarial profession in IPOS is mandated**

### Professionals?

- Duty to inform ... and be informed
- Understandability
- Reputation of profession ...  
... in our hands



**-- Beyond the numbers**

**-- Before and Beyond the IPO**

1. Pre-IPO preparation
2. IPO project
3. Post IPO

## Food for thought ... Page of 'P's ...

Paradigm

Profile

Public

Professional

Proud

Passionate

Protect

Perception

Prove

Process

Preparation

Plan

Project

Practice

Principles

Pressure

Parties

Predict

Prospective

Perform

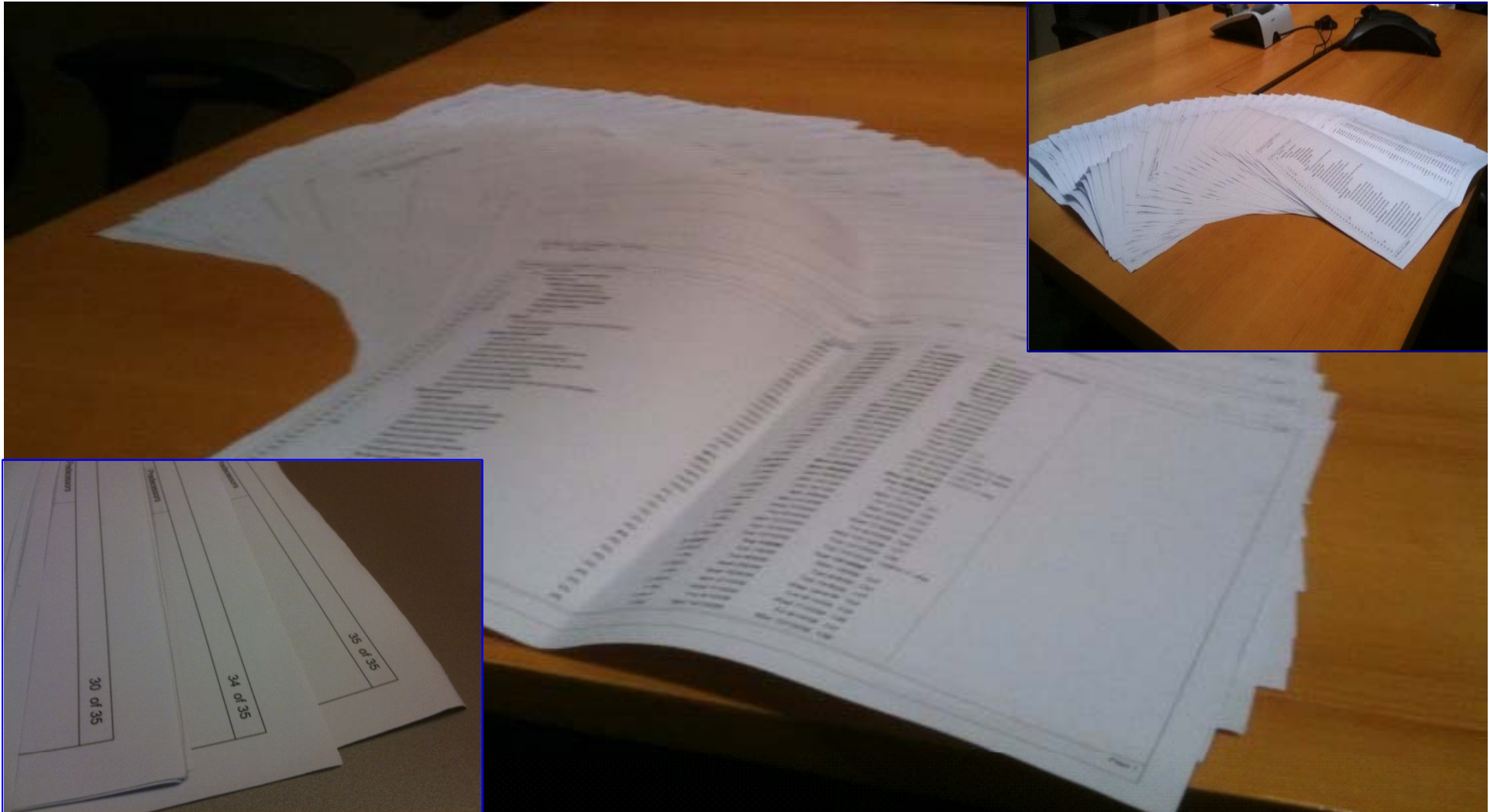
## The IPO Experience – some aspects

- Objective?
- Equity story...
- Public profile – media attention and risk...
- Large and complex
- A myriad of contributors and stakeholders to consider
- Huge time pressure
- Many calls for information
- Standard setting
- Prospectus drafting
- Queries from regulator and stock exchange
- Roadshow

## The “internal” process can involve a multitude of components....

- Substantial number of parties involved
  - Company and shareholders
  - Investment banks
  - Legal counsel
  - Auditors
  - Actuaries
  - Etc.
- Many work streams
  - Finance and actuarial
  - Legal
  - Marketing
  - Communication
  - Restructuring?

....and detailed project plans





# The role of the Actuary in an IPO

- VALUE ADD or COMMODITY ?
- To do it right, the actuaries need full involvement
- For example (common areas):
  - Embedded value
  - Accounts
  - Liability valuation
  - Supporting the due diligence
  - Risk disclosures
  - Capital requirements
  - Performance assessment: Movement analysis, explanations and projections

## Justified and documented



Governance. Robust. Supportable. Understandable, Informative and Helpful.

## APS10 in context

- EV results are the key valuation basis for life insurer IPOs
- Users of the information may not be experienced in financial reporting for insurance companies
- Within the meaning of Annexure 1, Section c (2) (xiv) of the IRDA (Issuance of Capital by Life Insurance Companies) Regulations, 2011
- Is a Practice Standard
- Applicable to Fellow members of IAI reporting or reviewing the EV results of life insurance companies for the purpose of seeking listing on stock markets in India through an IPO

## Areas covered by APS10

- Role of an Actuary
- Considerations affecting the appointment of an Actuary
- Valuation method
- Valuation assumptions
- IEV reporting and disclosures
- Working with other advisors
- Other considerations

## Key aspects of APS 10

- Different approach to the rest of the world
- EV Report - prepared by independent Reporting Actuary and reviewed by Reviewing Actuary
- Indian embedded value (IEV) – prepared in compliance with APS10
- Reporting and Reviewing Actuary should have previous experience of IPO
- Embedded Value Report to include comment on data, method, assumption and result along with the opinion
- Report to highlight the sensitivities to assumptions and the risks in the reported values
- Reporting Actuary to have access to other advisors to ensure common understanding

## Responsibilities of the Board and the Actuary

- Actuary responsible for compliance with APS10 but...
- ....Board of Directors are responsible for the information disclosed in a prospectus
- Prospectus is the basis for an investment decision
- Users are not necessarily informed and experienced users of financial information
- Board need to decide on materiality criteria for IEV results



Board will want the right level of assurance in the results given the risk exposure and importance of the IEV information

## IEV results

### A market-consistent approach

- Free Surplus allocated to covered business
- Required capital identified to support the business
- Value of in-force covered business
  - Present value of future profits
  - Time value of options and guarantees
  - Frictional cost of required capital
  - Cost of residual non-hedgeable risks

## Assumptions and management actions

- Economic assumptions
  - Determined such that the projected cash flows are valued in line with the prices of similar cash flows that are traded on the capital markets.
- Operating assumptions
  - Best estimate with regard to past, current and expected future experience
  - “Fully loaded” expenses
  - Dynamic policyholder behaviour
- Management actions
  - Must be supported by appropriate approvals



## APS10 disclosures

### Sensitivities should inform on the risks to value

- Details of the methodology and assumptions
- Base EV and VNB
- Analysis of movement in EV (One year only required but could do more)
- “Standard” sensitivity pack described in APS 10
  - Interest rates and assets
  - Expense and policy / premium discontinuance rates
  - Insurance risks
  - Required capital
  - Tax rates
- May need to link additional sensitivity tests to the products, business and environment
  - Persistency: Pre and post lock-in period
  - Taxation (DTC)

## Some key questions

### Technical issues

- Are you ready to calculate market-consistent IEV results?
- Are your models, data processes and reporting processes “IPO ready”?
- How have operating assumptions been set? Is this consistent with APS10? Have these been reviewed?
- Are “appropriate approvals” for management actions in place?
- Do you have a robust and APS10 compliant analysis of movement process in place?
- Is all the information for disclosure readily available?

## Some key questions (2)

### Management issues

- Are the responsibilities of the Company for an IPO understood?
- Does the Board understand the importance of the IEV results to the process?
- Does your Board/senior management understand the requirements and implications for the actuarial function of APS10?
- Are your internally reported results consistent with APS10? How can you explain the differences?
- Has materiality been discussed with the Board?
- What should be disclosed beyond the APS10 requirements?
- How does the company expect to perform after the IPO?

## Selected possible steps in moving to meet the APS10 requirements

- Preparing the Board and senior management
  - Responsibilities
  - Actuarial requirements
  - Results
- Understanding the time required to produce the IEV results and report
- Getting models and processes to be “ready” for external use/review and IPO
- TEV to MCEV?
  - Technical issues – Modelling requirements; Valuation of TVFOG; Calculation of the CRNHR
  - Management issues – Effect on relative product profitability; Explanation of results
- Assessment and review of assumptions (e.g. expenses)
- Development and approval of management actions

## Final thoughts and questions for the floor.....

What will you do to meet the professional requirements and be proud of the work?

What commitment (e.g. people, time, budget) does your firm need to make for it to be a success?