KPMG

Solvency II Exposed

Survey report
November 2015

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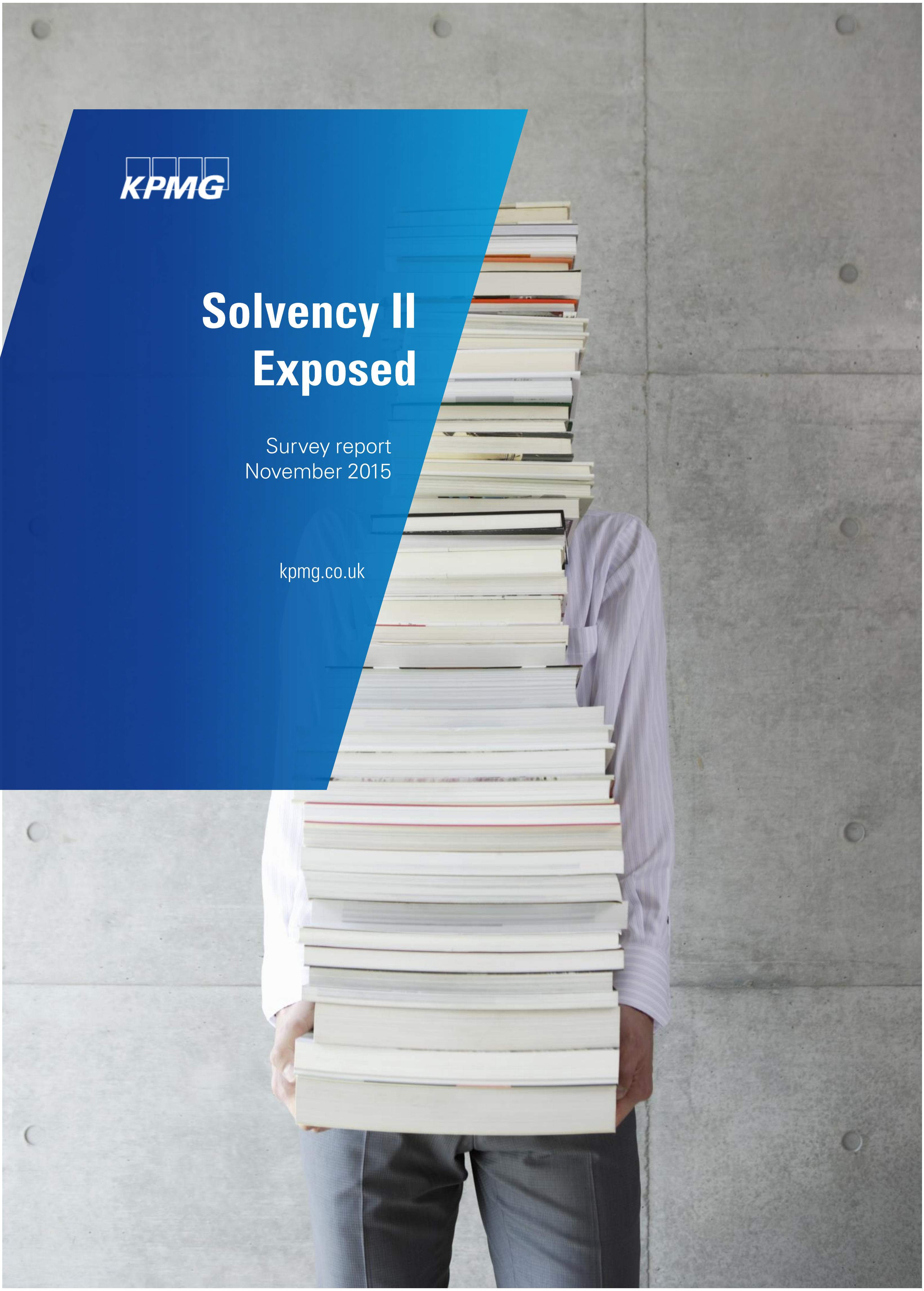

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01 Introduction

WITH SOLVENCY II ("SII") FAST APPROACHING AND UNCERTAINTY STILL LOOMING, FIRMS ARE LOOKING TO AVOID SURPRISING INVESTORS BY CAREFULLY PULLING BACK THE VEIL ON THEIR POSITION BEFORE SII GOES LIVE. THE CHALLENGE REMAINS FOR FIRMS AS TO HOW AND WHAT THEY WILL COMMUNICATE WITH INVESTORS ONCE WE ARE IN A SII WORLD.

16 EUROPEAN INSURANCE GROUPS ACROSS UK, FRANCE, GERMANY, ITALY AND SWITZERLAND HAVE PARTICIPATED IN THE 2015 KPMG DISCLOSURES SURVEY WHICH SEEKS TO PROVIDE INSIGHTS ON THESE CHALLENGES AND BUILD UPON WHAT WE LEARNT FROM OUR 2014 SURVEY.

Objectives

SII is just round the corner and firms are developing their thinking on their approach to public reporting in this new environment. Our aim is to provide insights on the implications of SII on the public reporting that European quoted insurance companies will produce for investors.

In particular, the analysis covers what firms intend to disclose for SII prior to and after formal SII reporting begins and the changes firms expect to make to their financial framework in light of SII.

Survey methodology

This survey is a continuation of the KPMG disclosures survey conducted in 2014. The survey builds on last year's survey and covers the following areas:

- SII disclosures prior to and post SII implementation.
- Cash disclosures and IFRS.
- Embedded Value (EV) and New Business disclosures.
- Economic Capital (EC) and Risk Adjusted Performance Metrics (RAPM).

16 leading European insurance groups across UK, France, Germany, Italy and Switzerland completed the survey in September 2015. The participants who have agreed to be named are: AEGON, Allianz, Aviva, Generali, Legal & General, Lloyds Banking Group, Munich Re, Old Mutual, Phoenix, Prudential, Standard Life and Zurich.

For data protection and commercial confidentiality reasons, individual responses have been treated with the strictest confidence. The results published are in aggregate format only.

Note on the interpretation of the results

We would like to point out that the information contained in this report is of a general nature and it is not intended to address the circumstances of any particular individual or entity.

Although we have tried to provide timely and accurate information we cannot guarantee that this information was accurate at the date it was received or that it will continue to be accurate in the future. Indeed, as firms continue to evolve their thinking on the subject, we would expect their views to evolve as well.

No one should act on any information contained in this report without appropriate professional advice and a thorough examination of their particular situation.

02 Executive summary

WITH JUST MONTHS TO GO BEFORE SII IS ADOPTED ACROSS EUROPE, THERE IS STILL UNEASE ON DISCLOSING DETAILED SII RESULTS BEFORE OFFICIAL REPORTING BEGINS. HOWEVER, SUBJECT TO THE OUTCOMES OF VARIOUS REGULATORY APPROVALS – INTERNAL MODEL APPLICATION PROCESS ("IMAP"), MATCHING ADJUSTMENT ("MA"), VOLATILITY ADJUSTMENT ("VA") AND TRANSITIONAL MEASURES ("TM"), A NUMBER OF FIRMS DO PLAN ON DISCLOSING HIGH-LEVEL SII POSITIONS.

Key Messages

1. **Firms are considering holding special investor briefings in December/ January to provide high level SII information.**
2. **One third of firms are concerned lower solvency ratios under SII will impact investor confidence.**
3. **Half of firms are concerned about additional balance sheet volatility under SII.**
4. **There is greater diversity in value reporting than ever before, presenting a significant challenge for the industry and investors.**
5. **The importance of EV continues to decline with more than a third of firms dropping the measure.**
6. **Firms continue to focus on cash metrics but there is no industry consensus for the definition.**

SII public disclosures

There is a clear picture of how firms will approach SII initially with 94% of firms planning to disclose their SII results before the formal requirement in FY16. However, the general consensus is that early results will not be detailed.

To disclose these early results, 75% of firms are planning to hold a SII specific investor briefing to coincide with IMAP approvals or alongside FY15 disclosures. 67% of firms have some concern about market reactions to the new reporting environment, with the biggest concerns being increased balance sheet volatility and lower solvency ratios. The majority of firms plan to manage these reactions by promoting a better understanding of their risks through communications and disclosing sensitivities.

As we move post SII implementation, more firms are planning to disclose the detail in their annual report, with 53% disclosing methodology and assumptions and 40% of firms disclosing analysis of surplus.

As SII becomes part of regular reporting, 31% of firms are planning to disclose their SII results half yearly and 63% are planning on quarterly disclosures. For 67% of firms, this represents an increase in the frequency of their current EC indicating SII disclosures.

Firms are starting to recognise the potential strain of tighter timescales for market disclosures compared to their regulatory Pillar 3 timelines. 60% of firms are now planning on using approximations or adjusted numbers for their disclosures versus Pillar 3. This is more than in the 2014 survey.

As regular SII reporting is embedded, firms are considering what assurance is required.

There is still some uncertainty and no general consensus on which areas will be audited. However, initial thoughts show a greater intention for external audit over internal. It is expected that the level of audit will be different between Own Funds and SCR – with firms more willing to rely on internal reviews in respect of the SCR.

Changes to financial framework

SII is causing some significant changes to firms' metrics but often there is no clear approach between firms.

40% of firms have said that they will drop EV reporting and only a few plan to replace it with an economic profit metric. 86% of firms that are keeping EV plan to align their methodology more closely to SII.

56% of firms will have an internal view of capital, of which only 25% will disclose this. Common differences between firms internal view and SII Pillar 1 are contract boundaries, fungibility and the calculation of Risk Margin.

Firms are planning on giving more focus to RAPM metrics post SII implementation. 81% plan to produce a RAPM, but only 8% plan to disclose it. Most firms internal RAPMs are aligned to internal economic capital as opposed to SII.

Firms have not yet taken the opportunity of SII to redefine their cash generation, however where we have seen changes, some have aligned with IFRS while others have moved to SII post capital. This indicates there is no clear consensus between firms on the most appropriate basis to use in the future.

Consistent with 2014's findings, no one is planning to change their definition of IFRS reserves in advance of IFRS 4 Phase II as focus has still remained on SII readiness.

03 Solvency II public disclosures

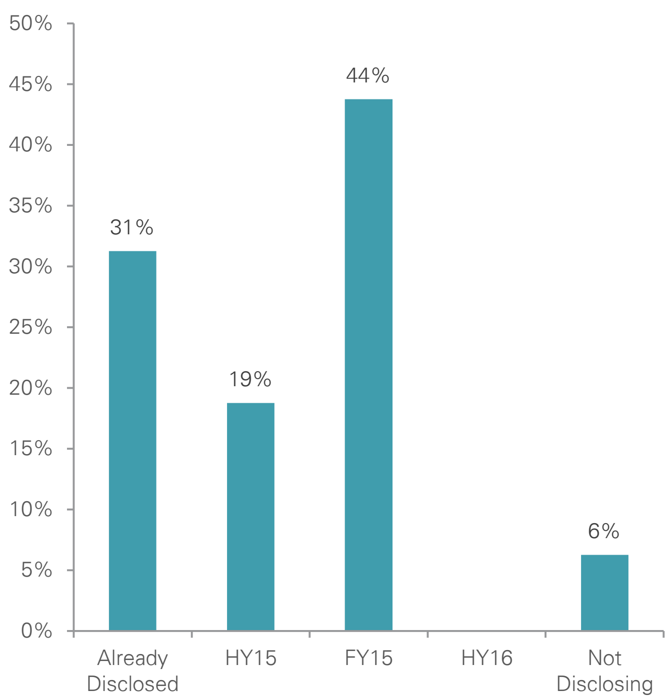
94% OF FIRMS HAVE DISCLOSED OR PLAN TO DISCLOSE THEIR SII RESULTS IN SOME FORM BEFORE FY16. MANY ARE PLANNING TO HOLD SPECIFIC INVESTOR COMMUNICATIONS PRE-2016 OR SHORTLY AFTER PENDING THE REGULATORY APPROVAL OR THE RANGE OF SII APPLICATIONS SUBMITTED.

3.1 SII disclosures prior to SII implementation

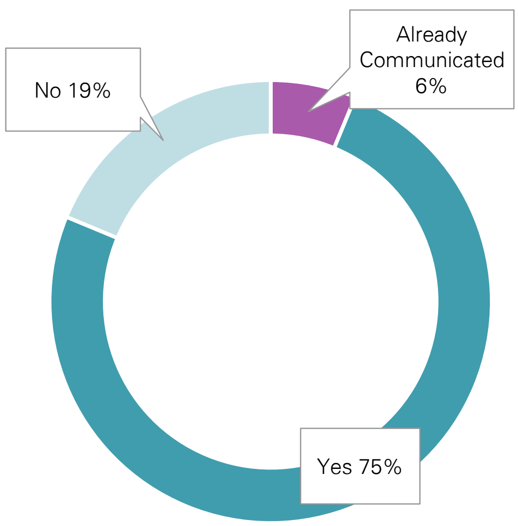
Firms are considering when is best to disclose to the market first indications of their SII position, if they have not already done so, and at what level of detail they should disclose that position. Following regulatory approvals being granted towards the end of 2015 a number of firms are expected to disclose high-level SII positions – with the majority to do so via special investor briefings.

The results to our survey do indeed suggest pre SII disclosures by the end of 2015:

Graph 3.1.1: Valuation date of first disclosures



Graph 3.1.2: Specific investor communications



Our 2014 survey highlighted that some firms had thought that they would have disclosed their results by now. The delay in disclosure has largely been driven by regulatory uncertainty – particularly in in the UK with reliance on Matching adjustment (MA), Volatility Adjustment (VA) and Transitional Measures (TM) to shore up capital positions.

Our 2015 survey found that 94% of the respondents will have disclosed their SII position before formal SII reporting officially begins at FY16 (31% have already disclosed based on FY14 results, 19% will make disclosures based on HY15 results and 44% will base their disclosures on FY15 results).

75% of firms indicated that they would be conducting special investor briefings/communications, focusing specifically on SII, in addition to their formal annual results presentations.

Only 13% of firms are planning to release detailed SII results as part of their disclosures pre SII implementation.

03 Solvency II public disclosures

AROUND HALF OF FIRMS WILL INCLUDE SII NUMBERS IN THEIR ANNUAL REPORT BEFORE OFFICIAL REPORTING BEGINS, SUPPORTED HIGH LEVEL COMMENTARY. ALMOST ALL FIRMS PLAN TO DISCLOSE SOLVENCY RATIOS BUT OTHERWISE THERE ISN'T A CLEAR CONSENSUS ON WHAT ANALYSIS SHOULD BE INCLUDED AS PART OF EARLY DISCLOSURE OR AS PART OF ONGOING ANNUAL REPORTS.

3.2 Level of public SII disclosures

Last year firms were approaching the disclosure of SII results pre FY16 on a 'minimum expectations' basis with the focus on own funds, SCR and surplus pre and post SII implementation. Firms' views were driven by what had been disclosed in estimated results to date. While this remains true to some extent for 2015, firms now have a much clearer picture of what they will be disclosing before SII implementation.

There is still uncertainty around what analysis will accompany disclosed results for FY16 and beyond. While some firms indicated they were still considering the area, most firms now have a clearer idea of what they expect to produce even if there isn't yet consensus across the industry.

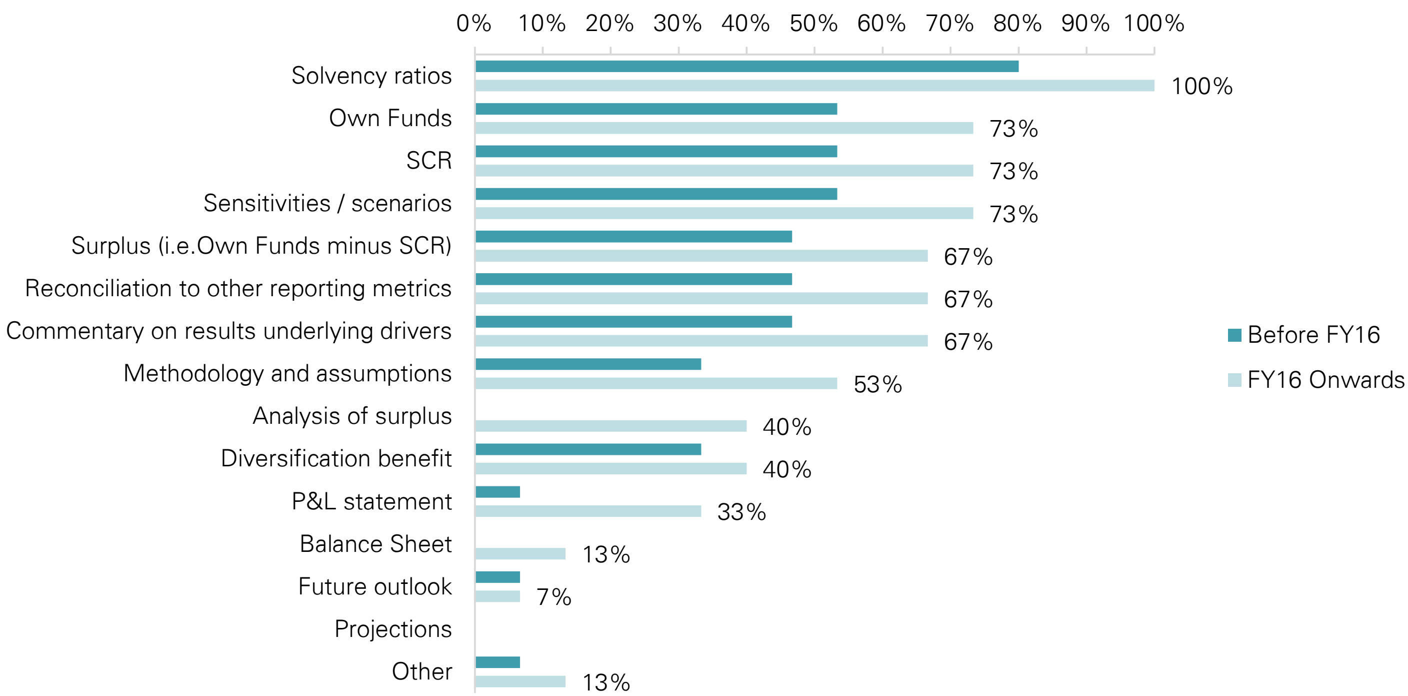
The results below show us what firms are currently thinking in 2015 about what SII metrics they will disclose pre and post implementation in 2016:

It has become clear from this year's survey that the SII metric used across the industry will be the solvency ratio. There is then a split with some firms expecting to provide limited additional information and others who will provide much more detail including own funds (73%), SCR (73%) and surplus (67%) and supporting analysis.

Initially a majority of firms plan to include reconciliations to other metrics and sensitivities to help inform investors. Post SII, more than half of Internal Model firms plan to improve understanding by including more commentary on drivers, an analysis of surplus and more details about the methodology and assumptions.

Generally Internal Model firms are planning to include more of the items listed above than Standard Formula firms.

Graph 3.2.1: SII metrics publicly disclosed



03 Solvency II public disclosures

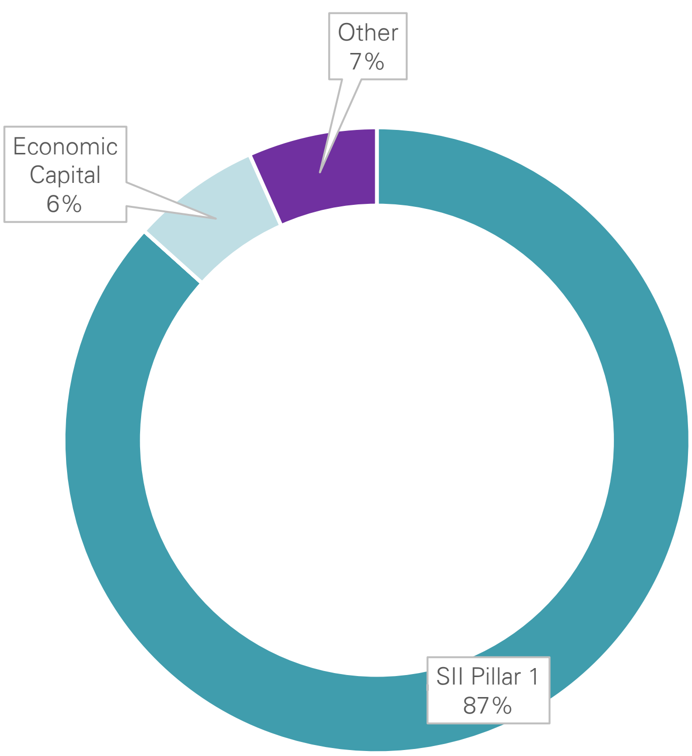
LOOKING FORWARD FIRMS ARE MOVING TO PLACE GREATER EMPHASIS ON THEIR SII PILLAR 1 SOLVENCY RATIO IN MANAGING THEIR BUSINESS. FEW FIRMS ARE PLANNING TO DISCLOSE SII RESULTS AT ANYTHING OTHER THAN A GROUP LEVEL.

3.2 Level of public SII disclosures (cont.)

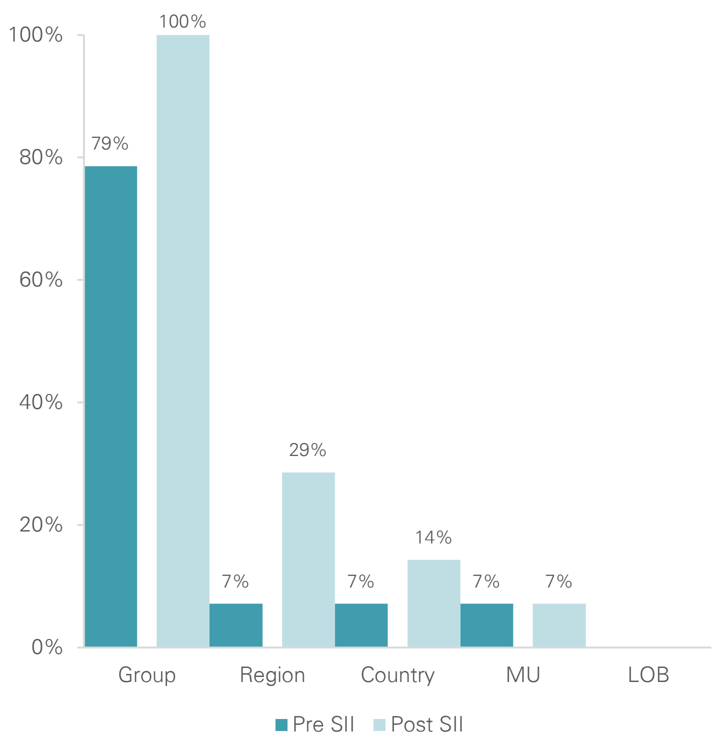
Firms will have to consider on which capital basis they will manage their business and which solvency ratios they plan to disclose. We have already seen that the SII Pillar 1 coverage ratio has contributed to the rationale behind some recent corporate actions such as planned mergers and capital raising or optimisation initiatives. Firms will also have to consider to what level of granularity they want to disclose their results.

Our results below suggest that the SII Pillar 1 coverage ratio will remain the popular focus post SII and that disclosures will mainly be at a Group level:

Graph 3.2.2: Solvency Ratios Receiving Most Focus



Graph 3.2.3: Granularity of Disclosures



87% of firms indicated that the SII Pillar 1 solvency ratio would receive the most focus post SII implementation, with 67% of those firms also planning to disclose an associated target ratio.

7% of firms said that they would focus managing their business using EC and 13% of firms said they would disclose both SII Pillar 1 and EC target ratios.

The firms who selected other suggested that they will be focusing on SII Pillar 1 surplus rather than target ratios.

The expected level of granularity of SII disclosures is similar to the results of the 2014 survey with all firms disclosing at a group level but few firms planning to disclose results at a more granular level.

03 Solvency II public disclosures

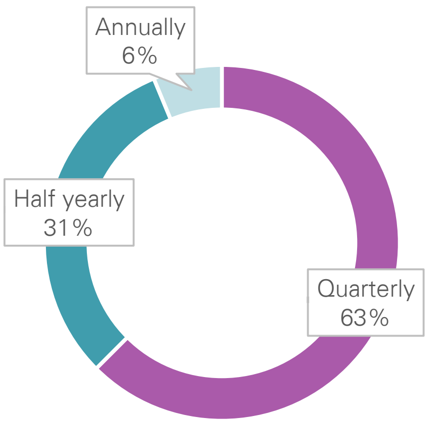
IT APPEARS THAT SII WILL DRIVE INCREASED FREQUENCY OF PUBLIC DISCLOSURES WITH 94% OF FIRMS PLANNING TO DISCLOSE SII RESULTS EITHER HALF YEARLY OR QUARTERLY. JUST OVER HALF OF FIRMS WILL DISCLOSE SII RESULTS IN THEIR FINANCIAL REPORTS ON AN APPROXIMATE BASIS.

3.2 Level of public SII disclosures (cont.)

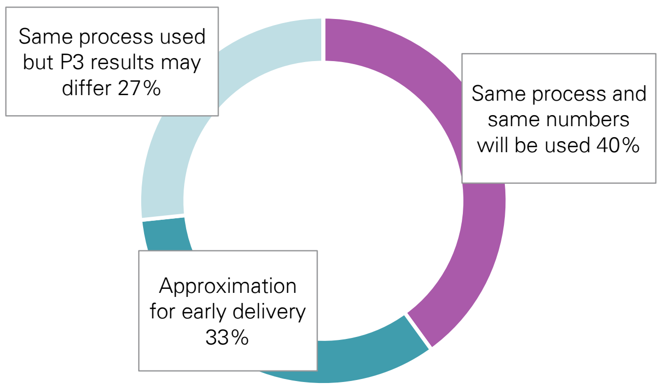
2016 presents a squeeze on insurers reporting resources as they continue to report under previous regulatory regimes alongside SII. For some this will be a move to more frequent reporting with shorter timescales leading companies to seek efficiencies where they exist.

The results to the survey below do suggest a move to more frequent disclosures and use of approximations to cope with the shorter timescales:

Graph 3.2.4: Frequency of SII disclosure



Graph 3.2.5: Alignment of public disclosures and Pillar 3 reporting



31% of companies intend to disclose their SII results half yearly with 63% quarterly and 6% annually. Of those already disclosing EC or SII, the change for 67% represents an increase in the frequency of their disclosures.

One company indicated they will disclose estimates quarterly and full results half yearly.

Just as last year, no companies indicated that they will be extending reporting timetables to cope with the additional reporting for FY15. 40% indicated that the same process and numbers would be used to produce Pillar 3 reporting and public disclosures. 60% indicated that the numbers may differ between disclosures and Pillar 3 reporting due to either approximations or adjustments. We have seen that some of the firms who participated in both the 2014 and 2015 survey shift their plans towards using more approximations. This could be reflecting the reality of timely reporting pressures that firms are starting to realise and appreciate in practice.

There was a mixed response from firms on their plans if they do not receive Internal Model approval in December. 39% will disclose Standard Formula results, 33% would focus on their EC measure, 17% would use an unapproved internal model, 11% indicated other options.

03 Solvency II public disclosures

67% OF FIRMS HAVE CONCERNS ABOUT MARKET REACTIONS TO THE NEW SII REPORTING REGIME. CONCERNS ARE MAINLY DRIVEN BY THE INCREASE IN BALANCE SHEET VOLATILITY UNDER SII AND LOWER COVERAGE RATIOS. FIRMS GENERALLY EXPECT THAT THE ANALYSTS WILL GIVE CREDIT FOR TRANSITIONAL MEASURES, MATCHING ADJUSTMENT AND VOLATILITY ADJUSTMENT IN THEIR ASSESSMENT OF FIRMS' AVAILABLE CAPITAL.

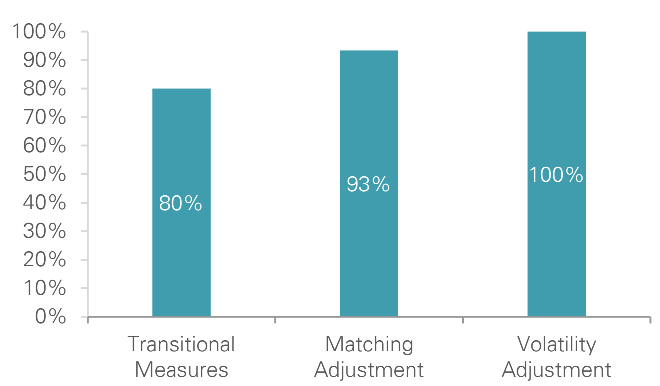
3.3 Investor relations in a SII environment

At HY15 we have seen more examples of analysts asking increasingly technical questions on SII – for example, sensitivity of EC coverage ratio to corporate bonds, how the EC coverage ratio will differ from the SII ratio, EC target ranges and what is the future view of the EC solvency ratio.

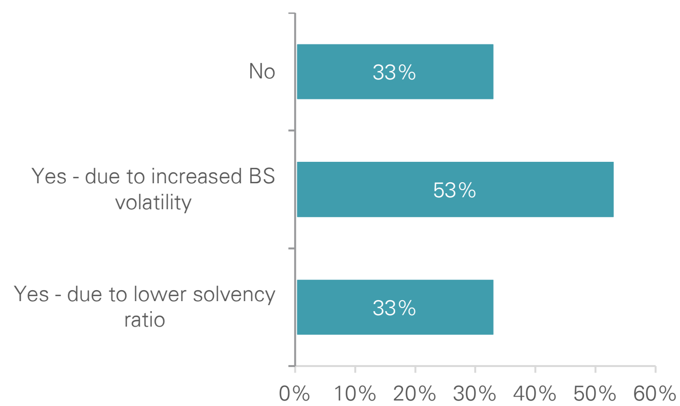
Firms may also have concerns about what credit analysts will give for the capital positions they have following successful SII applications, e.g. MA, VA and TM. The UK regulator (the PRA), issued a statement in July 2015 clarifying that they will give insurers full credit for transitional benefits when considering their position to be able to pay dividends to their shareholders. The PRA clarified that the asset created from Transitional Deduction from Technical Provisions (TDTP) will be classified as Tier 1 capital. They also stress that transitionals are a legitimate form of capital and that any savvy analysts should consider how the TDTP is released over the 16 years in conjunction with any off-setting benefits of the un-winding of the Risk Margin.

This has prompted this year's survey to include questions around what insurers think the market reactions to the new reporting regime and SII applications will be:

Graph 3.3.1: Investor credit for applications



Graph 3.3.2: Expecting market concerns?



The majority of firms believe that investors will give credit for all SII applications and 80% of firms agree that investors will give credit for TM in line with the statement from the PRA.

67% of firms have some concern about market reactions to the new reporting environment. Notably, a third of firms have concerns over market reactions to lower solvency ratios. 53% have concerns over increase balance sheet volatility.

Of those who have concerns, the majority of these plan to manage these reactions either through their communications or by disclosing sensitivities to promote better understanding of the key risk drivers. Notably, those who have already disclosed results are less concerned about market reactions to SII.

03 Solvency II public disclosures

THE MAJORITY OF FIRMS EXPECT TO RECEIVE SOME SORT OF EXTERNAL ASSURANCE ON THEIR SII RESULTS HOWEVER, APART FROM OWN FUNDS (EXCLUDING RISK MARGIN) THERE IS NO CLEAR CONSENSUS YET ON WHAT ASPECTS TO SUBJECT TO EXTERNAL AUDIT.

3.4 SII results assurance

In the lead up to SII implementation a number of companies have sought assurance either internally or externally. In particular companies have conducted a gap analysis with the SII regime as it is currently interpreted to ensure there are no surprises when results are first released.

More formally, some UK firms have also been asked by the PRA to participate in a two phase SII assurance review process. Step 1 focussed on the interpretation of SII methodology and Step 2 focussed on the calculation of balance sheet items. This process may have created awareness and encouraged the need for assurance within the SII reporting process.

Our survey was completed before the PRA released CP43/15 on external audit. The consultation paper requires relevant elements of the SFCR to be externally audited, at a solo and group level, but excludes the SCR (and consequently the SCR elements of the RM) for IM firms. Auditors are expected to provide a reasonable assurance opinion that the 'Valuation for solvency purposes' and 'Capital management' sections of the SFCR have been properly prepared.

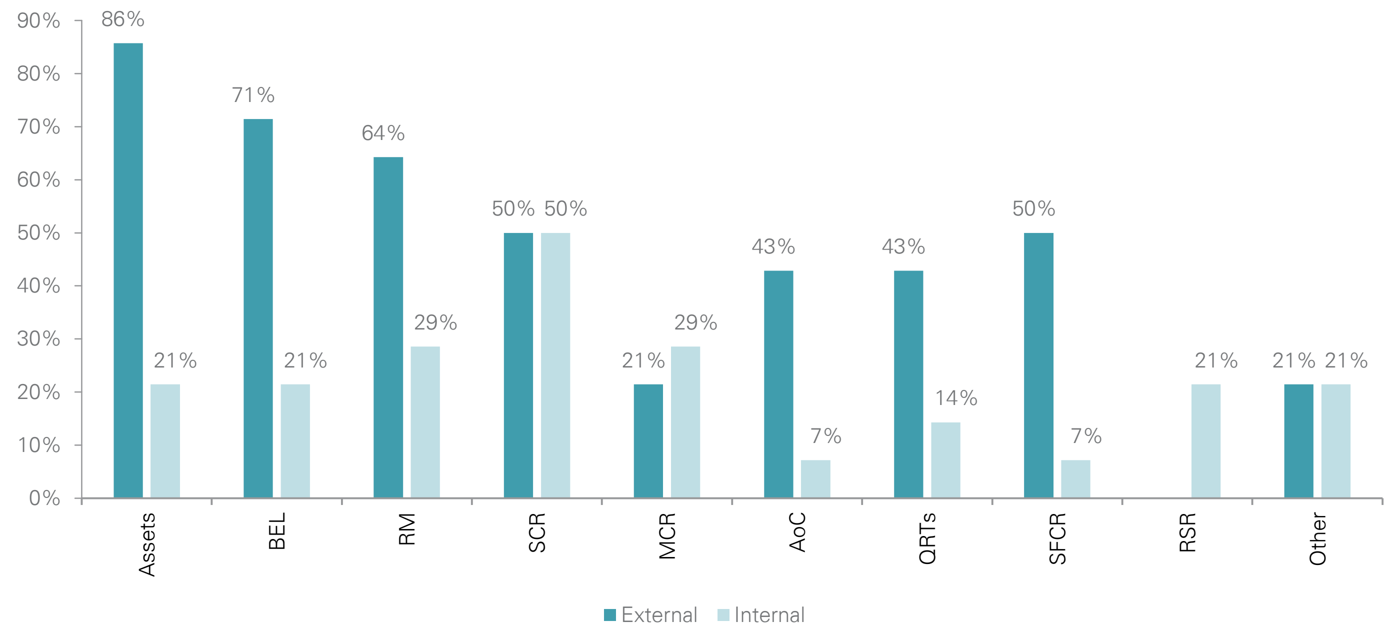
As well as the PRA, EIOPA indicated in June 2015 their support for external audit of the main elements of the SFCR (identified as the balance sheet, Own Funds and capital requirements).

While most companies are intending to get external assurance for their asset values, BEL and RM. There is no clear consensus from firms about what other aspects of the SII regime to subject to an external audit. More firms intend to review their SCR internally. Those who selected 'other' said that they would audit Group Own Funds.

In general, firms are seeking each item to be externally audited or internally reviewed, not both.

All of the firms planning to have their QRTs and SFCR audited externally are also planning to get external assurance for the underlying elements (i.e. BEL, RM etc.). 29% of firms intend to externally audit their balance sheet items only, not their templates or reports.

Graph 3.4.1: External and internal audit of SII process



04 Changes to financial framework

EV REPORTING IS BECOMING LESS IMPORTANT WITH 40% OF FIRMS PLANNING TO DROP EV AFTER FY15. CASH AND NEW BUSINESS VALUE REPORTING REMAIN IMPORTANT METRICS AND THERE IS A GROWING FOCUS PLACED ON RISK ADJUSTED PROFITABILITY METRICS (RAPM). FIRMS HAVE NOT YET TAKEN THE OPPORTUNITY OF SII TO REDEFINE THEIR CASH GENERATION, HOWEVER WHERE WE HAVE SEEN CHANGES, THERE IS NO CLEAR CONSENSUS BETWEEN FIRMS ON THE MOST APPROPRIATE BASIS TO USE IN THE FUTURE.

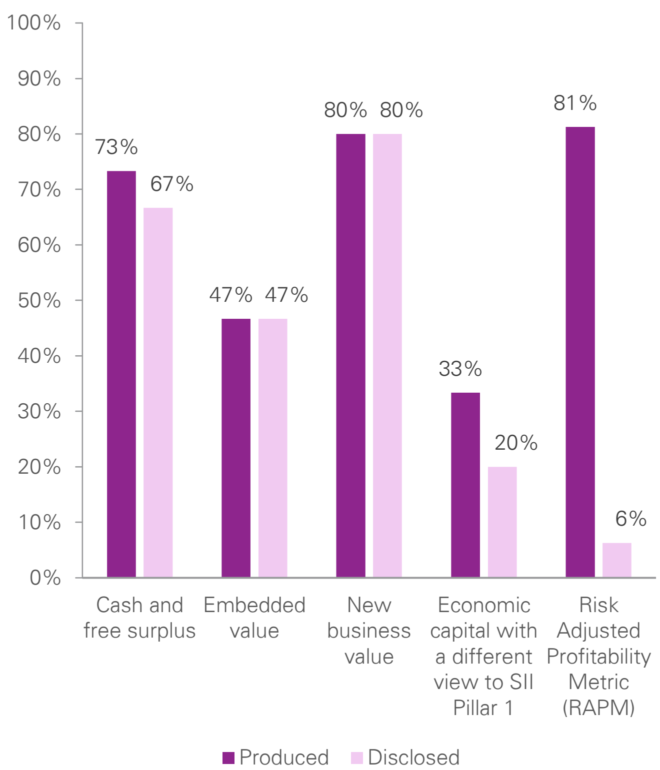
4.1 Future of economic metrics

The implementation of SII has presented companies with an opportunity to review the full scope of the financial metrics that they produce and disclose to the market.

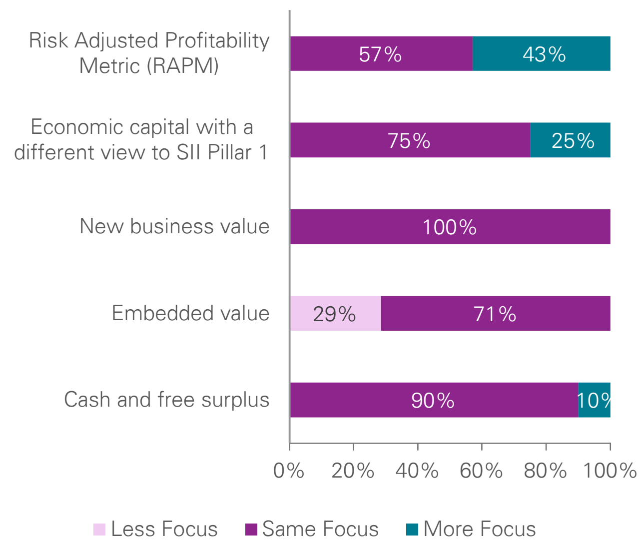
The 2014 survey showed that some consideration had been given to this. Firms were beginning to look at the role of EV post SII implementation. This thinking has developed in the 2015 survey as 40% of firms have said they will drop EV reporting post SII, whilst 13% have said they are undecided on it's future. While EV is shown to be declining the use and focus on RAPMs is increasing.

The results below indicate the metrics firms intend to continue producing and how focus on these metrics will change post SII.

Graph 4.1.1: Metrics produced and disclosed



Graph 4.1.2: Change in focus on metrics



Where firms are producing metrics they are also disclosing them to the market. The exception to this is RAPMs which are generally only used internally for managing the business and are not disclosed to the public. This may develop over time as firms without their own EC measure look for ways to demonstrate profitability in a post SII world rather than just disclosing solvency.

4.2 Future of Cash Reporting and IFRS

Firms currently use a range of definitions for reporting cash generation and it was expected that SII would provide an opportunity to standardise definitions to either an IFRS or SII basis. However, of the firms who have already changed their cash definition, some have aligned with IFRS while others have moved to SII post capital. This indicates there is no clear consensus between firms on the most appropriate basis to use in the future.

Firms were also asked if they were planning on changing their approach to IFRS liabilities ahead of IFRS 4 Phase 2 of which all said no. This is consistent with the results of the 2014 survey and the industry thoughts in this area has not changed whilst all the focus is still on SII.

04 Changes to financial framework

THE MAJORITY OF FIRMS KEEPING EV ARE PLANNING TO CHANGE THEIR METHODOLOGY TO ALIGN WITH SII. SOME FIRMS WILL MAKE ADJUSTMENTS TO ALLOW FOR CONTRACT BOUNDARIES. AS A RESULT EV IS EXPECTED TO BE LESS COMPARABLE BETWEEN FIRMS IN FUTURE.

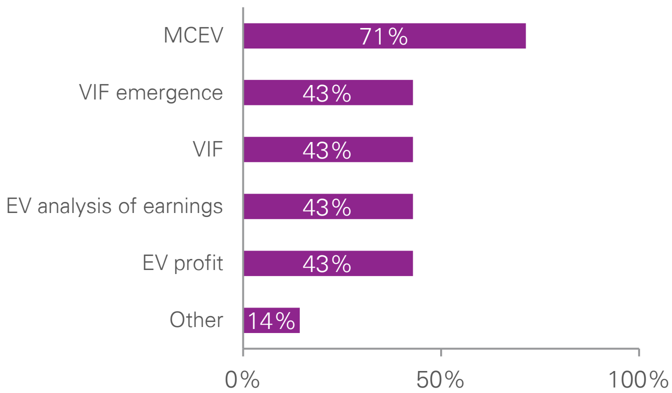
4.3 Future of Embedded Value Reporting

Firms who are planning to continue reporting EV are considering carefully the appropriateness of using the SII basis for this given the implications of the valuation approach required such as contract boundaries, matching adjustments and risk margins for EV results for certain product classes.

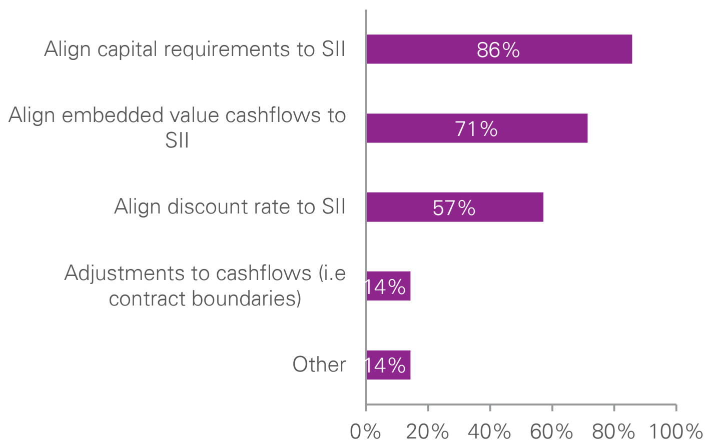
The CFO Forum has not yet issued guidance on how EV measures should interact with SII although we would expect some form of clarification before SII goes live on 1 January 2016.

The results below show the metrics that firms intend to report in the future and changes to their EV methodology in light of SII and are expressed as a percentage of firms who will be producing EV.

Graph 4.3.1: Future EV Reporting Metrics



Graph 4.3.2: Changes made to future EV methodology



We found that the impact of SII on EV is pronounced with 86% of firms continuing with EV saying they would change their EV methodology to align with SII in some way. The main changes are aligning capital, making adjustments to bring EV cashflows more in line with SII and aligning discount rates.

The different adjustments made to EV by firms, to take SII into account for their economic definitions, will cause methodology to diverge between firms. This is problematic for a metric that was designed to improve comparability between firms.

04 Changes to financial framework

FEW FIRMS INDICATED THAT THEY PLAN TO USE PURE SII AS A BASIS FOR VALUING NEW BUSINESS, WITH MOST FIRMS INDICATING THEY WILL USE AN ADJUSTED SII BASIS OR ALTERNATIVE MEASURES. THIS INDICATES THAT FIRMS ARE NOT CONFIDENT THAT SII PROVIDES A GOOD FRAMEWORK FOR ASSESSING AND DEMONSTRATING NEW BUSINESS VALUE. AS WITH EV, NEW BUSINESS VALUES ARE EXPECTED TO BE LESS EASILY COMPARABLE BETWEEN FIRMS.

4.4 Future of new business reporting

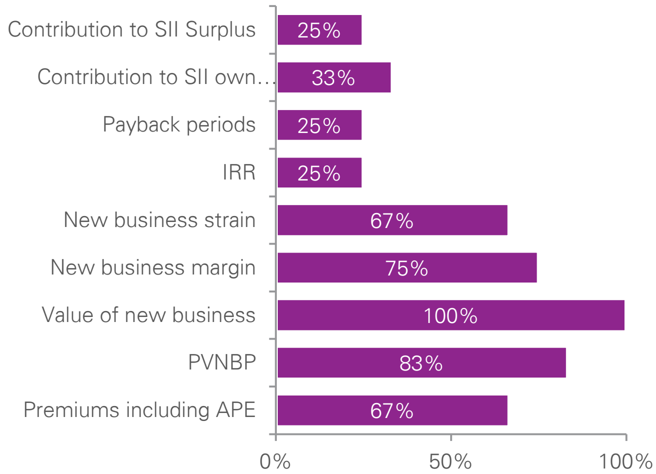
Aspects of SII, in particular contract boundaries, are particularly onerous for reporting new business on certain types of products. As a result firms are concerned about their ability to demonstrate the value added by new business using a purely SII basis.

Firms are responding to this by opting to continue reporting new business in a manner consistent with their current new business reporting or moving to align with an adjusted SII basis. This raises concern over how firms will manage the disconnect between the basis on which new business is valued and in force business is managed, adding complexity to effective management.

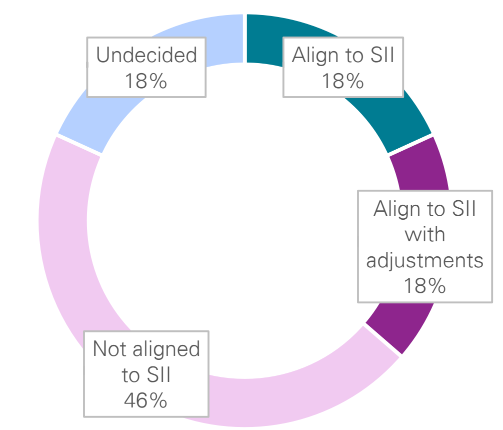
There will also be a diversity of new business reporting as firms make different adjustments for SII. This will make it more difficult for investors to compare new business values between companies.

The results below indicate the new business metrics firms will disclose and the intended bases and are expressed as a percentage of firms who will be producing new business metrics.

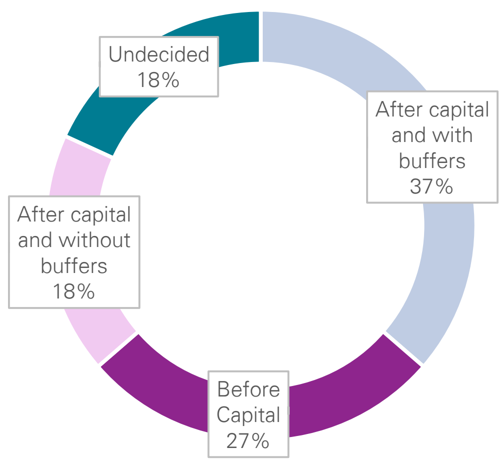
Graph 4.4.1: Disclosure of new business metrics



Graph 4.4.2: Alignment of new business metrics to SII



Graph 4.4.3: Disclosure of new business strain



Of the firms intending to continue disclosing new business metrics, all of them will disclose VNB. Those firms aligning their new business metrics to SII will make adjustments for contract boundaries and the cost of capital.

27% of the firms will disclose their new business strain before the impact of SII capital requirements.

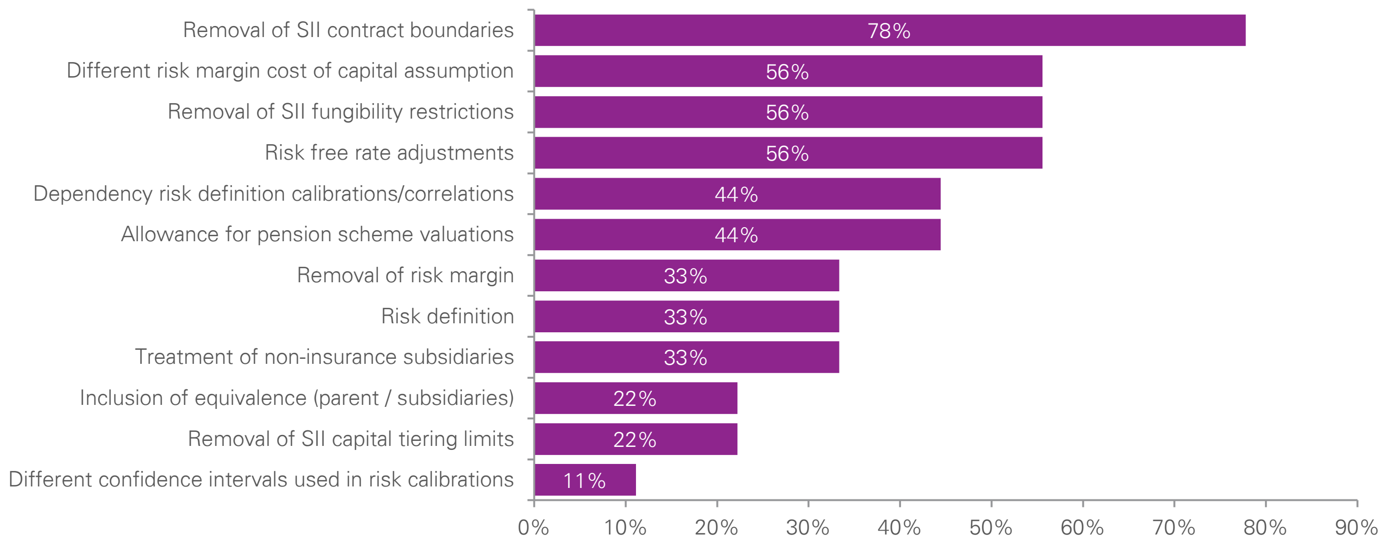
04 Changes to financial framework

MOST FIRMS HOLD AN INTERNAL VIEW OF THEIR BALANCE SHEET THAT DIFFERS FROM SII PILLAR 1. IN PARTICULAR 78% OF FIRMS WITH AN INTERNAL VIEW DON'T AGREE WITH THE SII TREATMENT OF CONTRACT BOUNDARIES. OTHER KEY DIFFERENCES ARE ON SII'S FUNGIBILITY RESTRICTIONS AND THE RISK MARGIN. ONLY 25% OF FIRMS WHO CURRENTLY DISCLOSE EC SAID THEY WILL CONTINUE DISCLOSE THIS POST SII.

4.5 "Internal view" vs. SII Pillar 1

Although SII Pillar 1 is meant to represent an economic view of capital, there are a number of areas where firms have a different view of the true 'economic' position. Of the 56% of firms that have an internal view of capital different to SII Pillar 1, these are the key differences:

Graph 4.5.1: Differences between SII Pillar 1 and "internal view"



The most common adjustments that firms intend to make are the removal of contract boundaries which is in line with the 2014 survey's findings. This is a reflection of the survey participants for whom regular premium savings products form a significant part of the product portfolio, which is most affected by the SII contract boundary rules. A number of firms are considering alterations to the Risk Margin, in particular by changing the cost of capital.

Of the 56% of firms who said they will hold an internal view of capital post SII, only 25% will disclose this to the market. They are most likely to do so by presenting reconciliations to the SII Pillar 1 capital requirements. It's worth noting that 25% of firms who currently disclose EC will continue to do so post SII. This suggests that even though firms may be managing their business based on an internal view of capital, they will focus on regulatory capital in disclosures to the market. Firms are aiming to avoid confusion in the market place from disclosing varying different capital positions.

04 Changes to financial framework

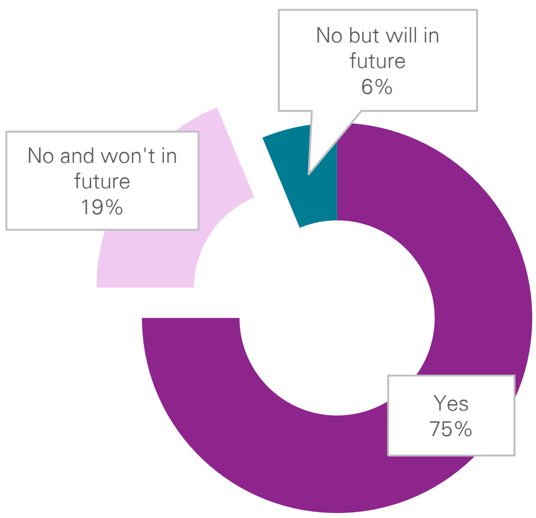
FIRMS ARE PLACING INCREASED FOCUS ON RAPMS INTERNALLY ACROSS PRODUCT DEVELOPMENT/PRICING, RISK MANAGEMENT AND INVESTMENT STRATEGY BUT FEW PLAN TO INCLUDE THEM IN THEIR DISCLOSURES OR LINK DIRECTLY TO REMUNERATION.

4.6 Future of RAPMs

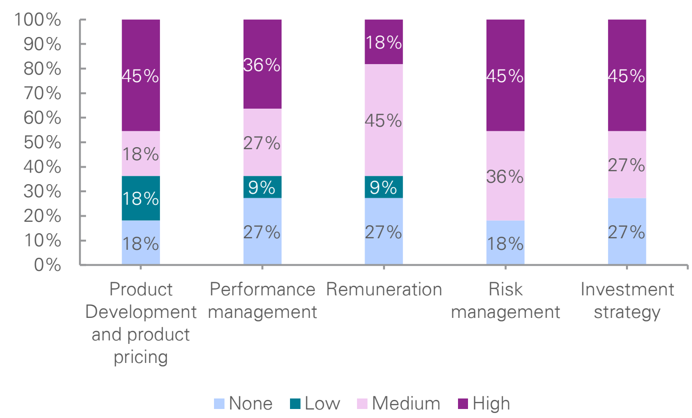
RAPMs is an area of increasing interest to firms seeking to demonstrate value and profitability in a post SII environment, particularly given the decline in reporting and emphasis of EV. It appears that the main role of RAPMs will be to provide internal management information given most firms are not disclosing these metrics to the market. A potential challenge for firms will be juggling dual metrics and managing messages to the market if actions are taken based on the internal metrics that are at odds with the disclosed metrics.

The results below show the planned use of RAPMs and their importance in different business areas for firms where they are currently in use.

Graph 4.6.1: Use of RAPMs



Graph 4.6.2: Importance of RAPMs



81% of firms indicated that they will produce RAPMs in the future. A number of firms indicated that whilst they currently produce a RAPM they are looking to embed it further into the business units.

The survey indicated a shift in the definition of profit used in the RAPM numerator from IFRS/SI profits towards SII profits in the future. Those companies currently using a change in EV or change in EC measure intend to continue doing so. 67% of firms are including a cost of capital in their profit measure.

The definition of capital in the RAPM denominator has a clearer consensus with 86% of firms using a multiple of internal EC and 14% using a multiple of SII SCR.

As expected RAPMs will receive the most attention in product development/pricing, risk management and investment strategy. Given their importance in these areas it is slightly surprising that firms are not placing more emphasis on them in remuneration.

05 KPMG contacts

Ferdia Byrne

Partner
KPMG in the UK

Tel: +44 (0) 20 7694 2984
ferdia.byrne@kpmg.co.uk

David Honour

Director
KPMG in the UK

Tel: +44 (0) 20 7694 2358
david.honour@kpmg.co.uk

Viviane Leflaive

Partner
KPMG in France

Tel: +33155686227
vleflaive@kpmg.fr

Jeroen van Wageningen

Partner
KPMG in the Netherlands

Tel: +31 20 656 2409
vanwageningen.jeroen@kpmg.nl

Antonella Chiricosta

Partner
KPMG in Italy

Tel: +3906809711
achiricosta@kpmg.it

Peter Ott

Partner
KPMG in Germany

Tel: +49 89 9282 1839
pott@kpmg.com

Richard Dyble

Executive Advisor
KPMG in the UK

Tel: +44 (0) 11 7905 4287
richard.dyble@kpmg.co.uk

Thomas Filipinski

Executive Advisor
KPMG in the UK

Tel: +44 (0) 20 7694 4293
thomas.filipinski@kpmg.co.uk

cutting through complexity