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Press Release

Milliman analyses embedded value reporting in the European and Asian insurance markets

London – September 9, 2015 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the availability of two new reports detailing embedded value (EV) results for 32 major insurance companies in Europe and 34 major insurance companies operating in Asia. The reports examine trends among companies reporting EVs as of year-end 2014.

Both reports compare practices followed by major insurance companies and discuss EV reporting issues given the move toward Solvency II in Europe and the global adoption of International Financial Reporting Standards.

"Embedded value continues to be an important metric for both insurance managers and investors in Europe and Asia, providing them with an additional dimension of information on insurance profitability that is otherwise missing from current accounting practices," said Milliman Principal and Consulting Actuary Philip Simpson.

"Differences in interpretation of standards and actual implementation still remain an obstacle to true direct comparability of EV between insurers in both Europe and Asia," added Milliman Principal and Consulting Actuary Paul Sinnott. "This is particularly noticeable in Asia where traditional embedded value reporting is more popular and significant differences are found in methodology, assumption setting and external disclosures."

Key insight from the European report include:

- Insurance companies' market capitalisations have generally become closer to their EVs, at around 100% of EV on average at the end of 2014 compared with 110% at the end of 2013.
- EV of CFO Forum members remained largely at the same level – their combined EV was £259 billion (€333 billion) at the end of 2014 compared with £250 billion (€301 billion) at the end of 2013. The slow increase is a reflection of challenging economic conditions – interest rates resumed a downward trend across many economies at the start of 2014, which was accompanied by poor growth in equity markets.
- The total value of new business for CFO Forum members also remained largely level in 2014 – the reported total value of new business was £11.4 billion (€14.7 billion) at the end of 2014 compared with £11.9 billion (€14.3 billion) at the end of 2013. Overall, there was a small decrease in new business margins and a comforting 12.3% increase in volumes.
- The Solvency II framework has been finalized, and companies started looking into aligning their EV methodologies with Solvency II – mainly those relating to extrapolation methodology for establishing the long-term risk-free interest rate. Also, some companies used the matching adjustment or volatility adjustment approaches.

Key insight from the Asian report include:

- The majority of foreign multinationals and domestic Indian companies base their EV reporting on the European embedded value (EEV) or market-consistent embedded value (MCEV) principles laid out by the CFO Forum, while domestics and Asia-based multinationals report on a traditional embedded value (TEV) basis.
- The EV of the Asian operations of the companies included in this report grew 15% on a constant currency basis over 2014, reaching USD $346 billion.
- Chinese insurers showed the highest growth in EV at 32%, driven by increased new business and, somewhat counterintuitively, reductions in the yield curve. South Korean insurers posted the lowest growth in EV at 2%, held back by static new business volumes and sustained low interest rates.
- Hong Kong insurers reported the largest growth in the value of new business at 48% in contrast to Taiwanese insurers who reported the lowest growth of 1%.

Interested parties may obtain a copy of the Milliman studies at http://www.milliman.com/ev-research or receive further information by telephoning or emailing:

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