



Life Forum Nov 2008

Financial Crisis – Implications for Year End Valuations

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Reminder of what has happened

- Equity markets down 40-66% (Nov 20)
- Most of the drop has happened since Sept 1st
- Banks “bailed out” by the government
- Interest rates falling rapidly – ECB rate down 1% and falling fast
- Long bond yields falling – 10 year German bond yield down from 4.2% to 3.4%
- Spread for Irish 10 year bond up from 0.3% to 1.0%
- Corporate bond spreads ballooning
- Property valuations collapsed and transactions dried up



Agenda

- Valuation Interest Rate
- Unit Linked
- With Profits
- Variable Annuities
- Tracker Bonds
- Property Funds
- Actions by other governments



Valuation Interest Rate

- Yield curve is now quite steep – issues if assets shorter than liabilities
- What is a risk free rate – Bund or Irish?
- How much of the corporate bond spread is liquidity premium
- Valuation interest rate where investment in equities

Unit Linked



- Falling fund values – falling margins
- Falling sales – higher renewal expense assumption?
- Resilience – how dramatic a scenario should we test?
- Combined impact can lead to substantially increased reserves
- Can you take credit for possible increase in charges?
- Make appropriate allowance for any options – they may be more valuable now
- Paid up policies may raise some new issues

With Profit



- Guarantees biting obviously becoming more valuable
- Requires clear strategy for equity content and distribution of surplus (PPFM?)
- Taking credit for MVA if not in force
- Smoothing reserve if paying out more than asset share
- Valuation interest rate?



Variable Annuities

- Hedging losses due to increased volatility
- Hedging profit or capital
- Guarantees substantially in the money – impact on reserves
- Pricing issues with falling interest rates



Tracker Bonds

- Counterparty issues – Lehman
- PRE issues on the “unit linked” nature of the guarantees
- Widening corporate bond spreads – valuation interest rate?
- Return of premium on death – impact on reserve for future mortality costs

Property Funds



- Liquidity Issues on exits
- Equity to all unit-holders
- Valuation – when was last valuation completed
- Fairness of management charges
- Geared funds – what if approaching zero valuation
- Impact of resilience



Actions in Other Countries

- **UK**
 - Relaxed view on allocation of corporate bond spread to liquidity premium
 - Will review in April (after returns filed)
- **Denmark**
 - Allow increase in valuation interest rate to take account of spread on mortgage bonds
- **Italy**
 - Allow companies to use historic asset values
- **Ireland**
 - None to date – appropriate for the Regulator to take any actions?