



International Association for the  
Study of Insurance Economics

# Études et Dossiers

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Extract from

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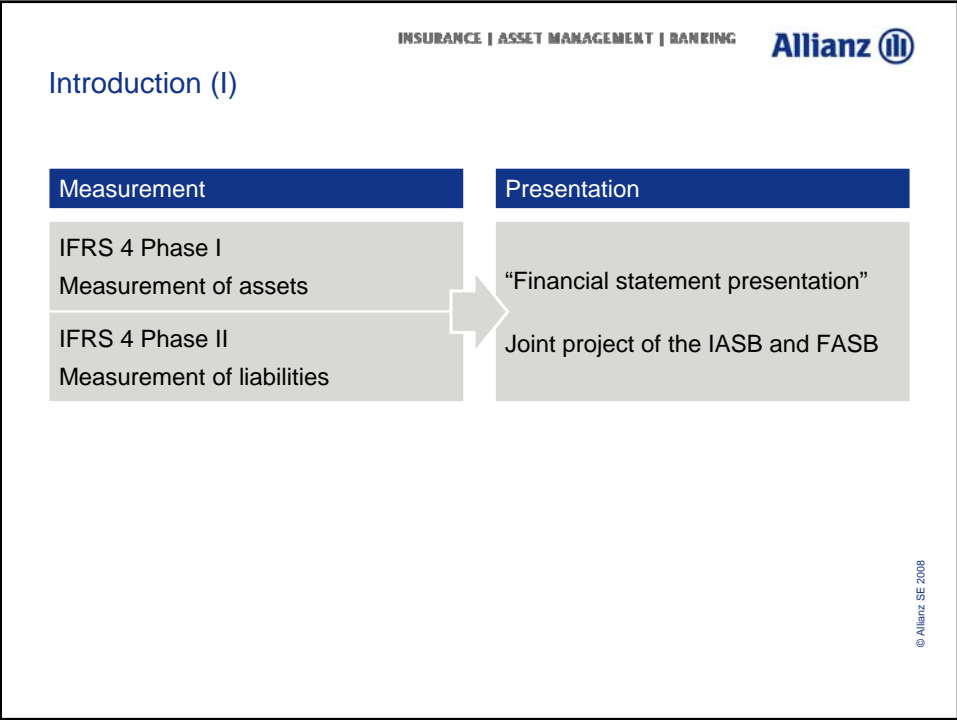
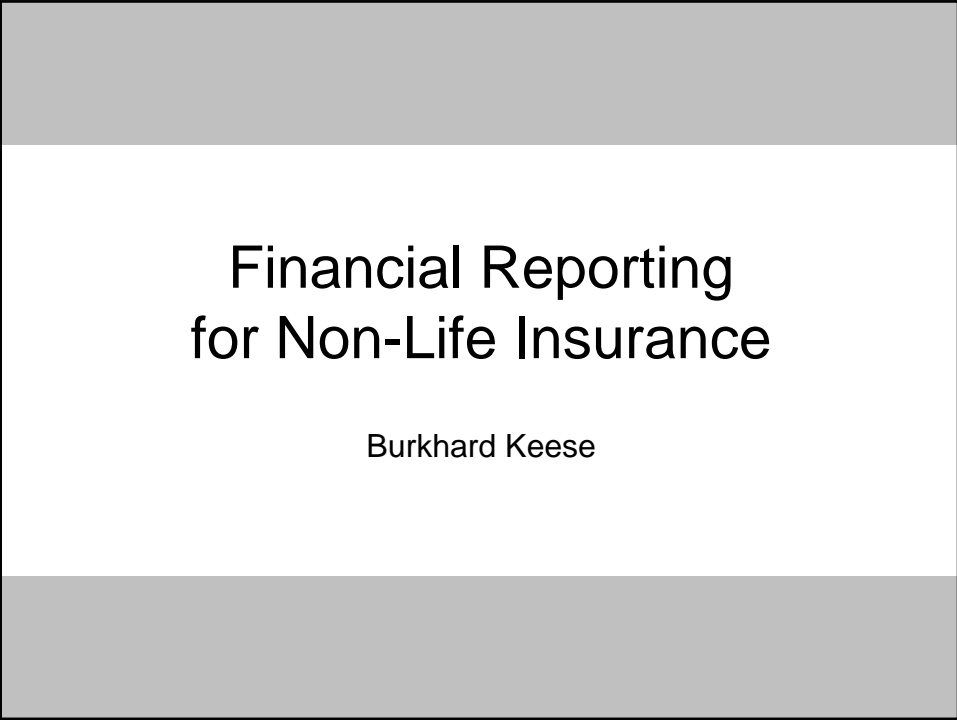
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### Introduction (II)

#### Reasons given for the presentation project

Markets need to have more cash flow information	✓
Financial statements are not cohesive	✓
The current P/L model is broken because its basis is not consistent	?
<ul style="list-style-type: none"> <li>▪ Some unrealized losses are not in the P/L</li> <li>▪ Unrealized gains are excluded from the P/L</li> </ul>	✓ ?


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### Proposed format of financial statement presentation

Statement of financial position	Statement of comprehensive income	Statement of cash flows	Cohesive
<b>Business</b> <ul style="list-style-type: none"> <li>▪ Operating assets and liabilities</li> <li>▪ Investing assets and liabilities</li> </ul>	<b>Business</b> <ul style="list-style-type: none"> <li>▪ Operating income and expenses</li> <li>▪ Investing income and expenses</li> </ul>	<b>Business</b> <ul style="list-style-type: none"> <li>▪ Operating cash flows</li> <li>▪ Investing cash flows</li> </ul>	→
<b>Financing</b> <ul style="list-style-type: none"> <li>▪ Financing assets</li> <li>▪ Financing liabilities</li> </ul>	<b>Financing</b> <ul style="list-style-type: none"> <li>▪ Financing asset income</li> <li>▪ Financing liability expenses</li> </ul>	<b>Financing</b> <ul style="list-style-type: none"> <li>▪ Financing asset cash flows</li> <li>▪ Financing liability cash flows</li> </ul>	
Income taxes	Income taxes on continuing operations (business and financing)	Income taxes	
Discontinued operations	Discontinued operations, net of tax	Discontinued operations	
	Other comprehensive income, net of tax		
Equity		Equity	

Source: IASB/FASB




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### Is net income no longer relevant, or only a subtotal?


Allianz Group (EUR mn)

	9M 2004 <sup>1</sup>	9M 2005	9M 2006	9M 2007	9M 2008
Total revenues <sup>2</sup>	72,592	75,779	71,595	72,074	69,525
Operating profit <sup>2</sup>	5,091	6,097	7,112	7,715	6,477
Net income	1,970	3,508	5,649	7,301	667
Movement of OCI	-484	3,491	-693	-3,935	-8,448
Comprehensive income	1,486	6,999	4,956	3,366	-7,781

- ▶ Comprehensive income does not reflect the performance
- It is disconnected from our business model

1) As reported (not reflecting financial reporting methodology refinement effective January 1, 2006)  
2) Total revenues and operating profit 9M 04 and 9M 05 include sold part of Dresdner Bank which has been classified as "discontinued operations" in the meantime

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### Measurement without presentation discussions are not really meaningful

Premium model in P/L	Margin model in P/L
Gross premiums written	Unwind of margins
Change in unearned premiums	▪ New business margin
Investment income	▪ Margins from in-force business
Subtotal revenues	Variance between expected and actual claims (retrospective)
Claims paid (calendar year and run-off)	Change in assumptions (prospective)
Acquisition costs	Unwind of discount rate
Administrative expenses	Investment income
Profit before taxes	Profit before taxes

- ▶ Key profit drivers visible (premiums, claims, investment result)
  - Direct computation of KPIs possible (loss ratio, expense ratio, inv. result)
- ▶ Profit drivers invisible
  - Instead, recording of margins (NBM, in-force margin), changes in assumptions and investment results

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## Conclusions

Accounting rules are convention

Appropriate presentations should always follow the management approach

The disconnection of measurement and presentation discussions may lead to not acceptable results