Contact: Philip Simpson

Email: philip.simpson@milliman.com

Tel +44 20 7847 1543

www.milliman.com

Press Release

Milliman Releases Annual Embedded Value Study

London – July 16 2014 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the availability of a new report detailing embedded value results for 32 major insurance companies in Europe.

The report examines trends among European companies reporting embedded values as of year end 2013 within the context of a global economy in the early stages of recovery. The report compares practices followed by major European companies and discusses embedded value reporting issues in the broader environment of Solvency II and International Financial Reporting Standards.

Against a backdrop of continued recovery in equity and debt markets, the narrowing of credit spreads and rising interest rates, embedded value reporting remained a key area of insurance company disclosures. Key insights include:

- The overwhelming majority of the companies included in this study, over 95%, now apply some form of market consistent valuation in the calculation of their embedded value.
- The ratio of market capitalisation to embedded value recovered significantly, with average market capitalisation, as a percentage of total embedded value, rising from 90% at the end of 2012 to 110% at the end of 2013.
- CFO Forum members experienced a robust and solid performance – with the combined embedded value increasing to £250 billion (€301 billion) at the end of 2013 compared with £222 billion (€273 billion) at the end of 2012.
- In addition to an improved economic environment, recent management actions in the wake of the Global Financial Crisis, such as product repricing and redesign, have led to improved values of new business. The total value of new business for CFO Forum members increased from £9.8 billion (€12.0 billion) at the end of 2012 to £11.9 billion (€14.3 billion) at the end of 2013.
- Some companies reflected elements of the latest Solvency II developments, mainly those relating to extrapolation methodology for establishing the long-term risk-free interest rate. However, despite the significant developments in Solvency II, all companies have generally used the same methodology to derive liquidity premiums as that used at the end of 2012. In particular, no companies included in the study used the Matching Adjustment or Volatility Balancer approaches detailed in the Technical Findings on the Long-Term Guarantees Assessment.
- The average equivalent cost-of-capital charge, where disclosed, decreased slightly from 3.4% at the end of 2012 to 3.3% at the end of 2013. The size of the liquidity premium applied by companies fell significantly over 2013, which was in line with the narrowing of credit spreads.

Overall, there are some signs of continued convergence in approach and in the information reported. The coming years will be a testing period for the industry as companies navigate the challenges of implementing new solvency and reporting requirements, while maintaining a high standard of supplementary reporting to satisfy the numerous stakeholders involved..

Interested parties may obtain a copy of the Milliman study at http://bit.ly/2013EmbeddedValue or obtain further information by telephoning or emailing Philip Simpson in London at +44 20 7847 1543, philip.simpson@milliman.com or Tatyana Egoshina in London at +44 20 7847 1527, tatyana.egoshina@milliman.com.

About Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

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