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Embedded value sensitivity

The changes in embedded value (%) at 31 December 2011 and 31 December 2010 are reported in the table below

Life embedded value sensitivities: Market Risks

- Interest rate +10%
- Equity price +10%
- Property price -10%

When analyzing the data from a general point of view, if it is straightforward to observe that the decrease in equity price is the main driver of the decrease in embedded value. Similarly to the previous year, data at 31 December 2012 showed that the Company suffered the interest rate decrease.

Life embedded value sensitivities: Underwriting Risks

- Expense rate +10%
- Mortality +5%
- Annuity Mortality -5%

The table above shows that the reduction of expenses and mortality rates (except for annuities) has a positive effect on embedded value. Regarding lapse, a decrease in surrender assumptions could produce both positive and negative effect in the Embedded Value. In addition to the quantitative analyses above presented, the qualitative aspects relating to underwriting process are also relevant. As far as the demographic risk related to pure risk portfolios is concerned, the mortality tables used in the pricing are subject to change. There is a particular emphasis, both at local and central level, in the underwriting of the new contracts, that contribute to the Embedded Value. As far as riders are concerned, which are mostly exposed to moral risks, maximum insurability levels by country are set. The Companies must apply the underwriting guidelines and operating limits defined by the Corporate Centre with respect to the riders. In order to mitigate mortality and morbidity risk, another feature is reinsurance. As far as the surplus (proportion of Embedded Value) is concerned, the longevity risk, notwithstanding its minor weight in the life business of the Group, is constantly monitored. For the Embedded Value, as far as new business is concerned, in each country demographic assumptions reflecting future mortality trends are used. As far as lapse risk (risks related to voluntary withdrawal from the contract) and expense risk (risks related to increase in expenses) are concerned, the Embedded Value is also sensitive to changes in these assumptions. For all risk categories, in the annual Embedded Value analysis, locally and centrally, there are two levels of control. Aggregate analysis have been made on the best estimate of the risk factors in order to assess the congruence between the Embedded Value and the best estimate of the underlying risks.
