



IFRS 17: Observations from first year implementation

ICAEW Webinar: 21 June 2024

Webinar content

Reflections on first time implementation of IFRS 17

- Session 1: General observations and reflections
- Session 2: Life observations
- Session 3: Non-life observations
- Session 4: The user's perspective
- Session 5: What next?
- Session 6: Attendees Q&A



Today's speakers



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Alex Rafferty,
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Ask a question



The screenshot shows a mobile application interface for asking questions. At the top, there are three dots and the text 'Q&A'. Below this, a question is displayed: 'You asked: What happens when I raise my hand?' with a timestamp of '18:03'. Below the question, an answer is shown: 'Molly Parker answered: I can take you off of mute.' with a timestamp of '18:04'. A large empty text input area follows, with the placeholder text 'Please input your question'. At the bottom, there is a checkbox labeled 'Send Anonymously' and a blue 'Send' button.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

Session 1

General observations and reflections

Tom Robb / Anthony Coughlan

Agenda



1. Re-cap of IFRS 17 measurement model
2. How do the IFRS 17 disclosures look?
3. Practical challenges
4. Accounting topics

1

Re-cap of IFRS 17
measurement
model

What a journey to 2024!



April 97:
IASC
starts

2001:
IASB
DSOP

March 04:
IFRS 4 issued
(from 1 Jan 05)

Oct 08 to Feb 14: Period
of IASB and FASB
attempted convergence

2018-19:
IASB TRG

2019: IASB
Amend to
IFRS
17 ED

Nov 21:
EU endorse
(one change)

16 May 22:
UK endorse
(no change)

1997 2002 2007 2012 2018 2024 ▶

1999: IASC
Issues
Paper

2002: IASB
split project into
2 phases

2007: IASB
Discussion
Paper

2010: IASB
Exposure
Draft

2013: IASB
Limited Re-
Exposure
Draft

2016: IASB
Amend
IFRS 4 for
IFRS 9

May 17:
IFRS 17
issued (from
1 Jan 21)




June 20: Amend
IFRS 17 issued
(from 1 Jan 23)

Dec 21: IASB
amend IFRS
17 for IFRS 9
comparatives

**Aug 23 & Mar
24:** Insurers
reported under
IFRS 17 for the
first time

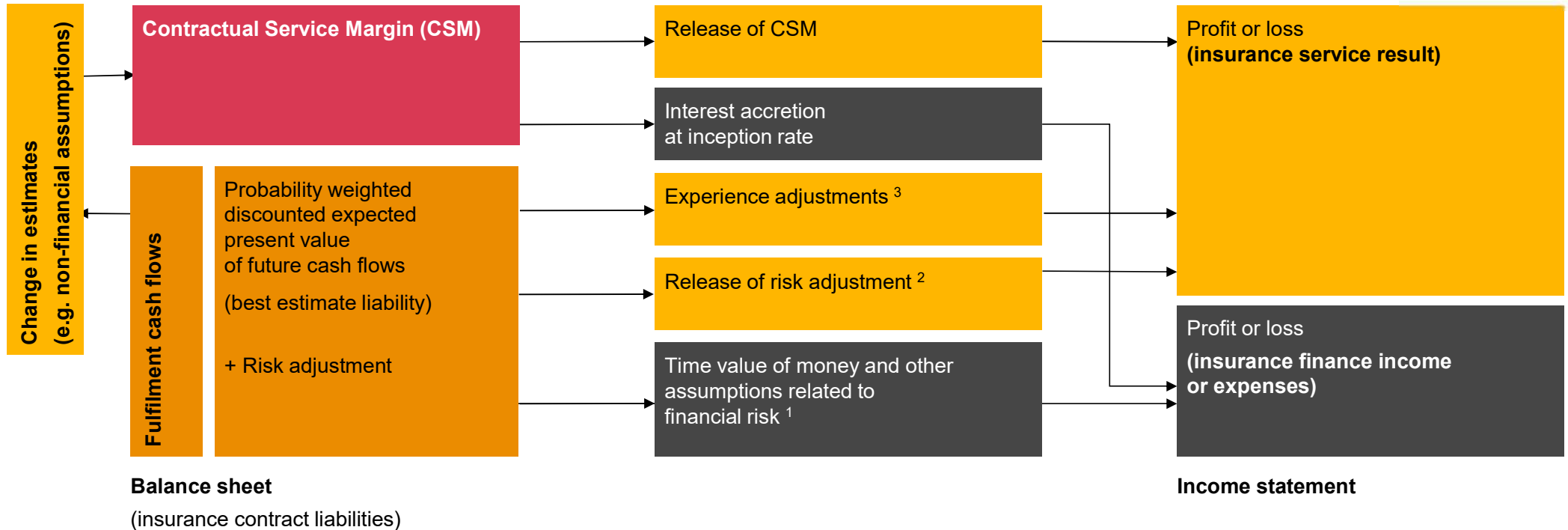
Re-cap of IFRS 17 measurement models*



	 General model	 Premium allocation approach	 Variable fee approach
Why is it needed?	Default model for all insurance contracts	To simplify for short term contracts with little variability	To deal with participating business where payments to policyholders are linked to underlying items like assets
Types of contract	<ul style="list-style-type: none"> • Annuities (immediate / deferred) • Long-term and whole life insurance, protection business, including funeral plans • Reinsurance written <ul style="list-style-type: none"> • Certain general insurance contracts 	<ul style="list-style-type: none"> • General insurance • Short-term life and certain group contracts 	<ul style="list-style-type: none"> • Most UK with-profits and unit-linked insurance contracts
Mandatory?	Mandatory	Optional	Mandatory

* Distinct investment components, embedded derivatives and distinct non-insurance goods & services are separated from insurance contracts and measured under other IFRS standards. Typically, rare in practice.

IFRS 17: General model – What is the flow to P&L?



¹ Accounting policy choice: (1) recognise all in profit or loss; or (2) OCI for changes in discount rate.

² Choose whether to disaggregate change in risk adjustment for non-financial and financial risk

³ Not all experience adjustments are recognised in profit or loss. Experience adjustments for premiums related to future services adjust the CSM.

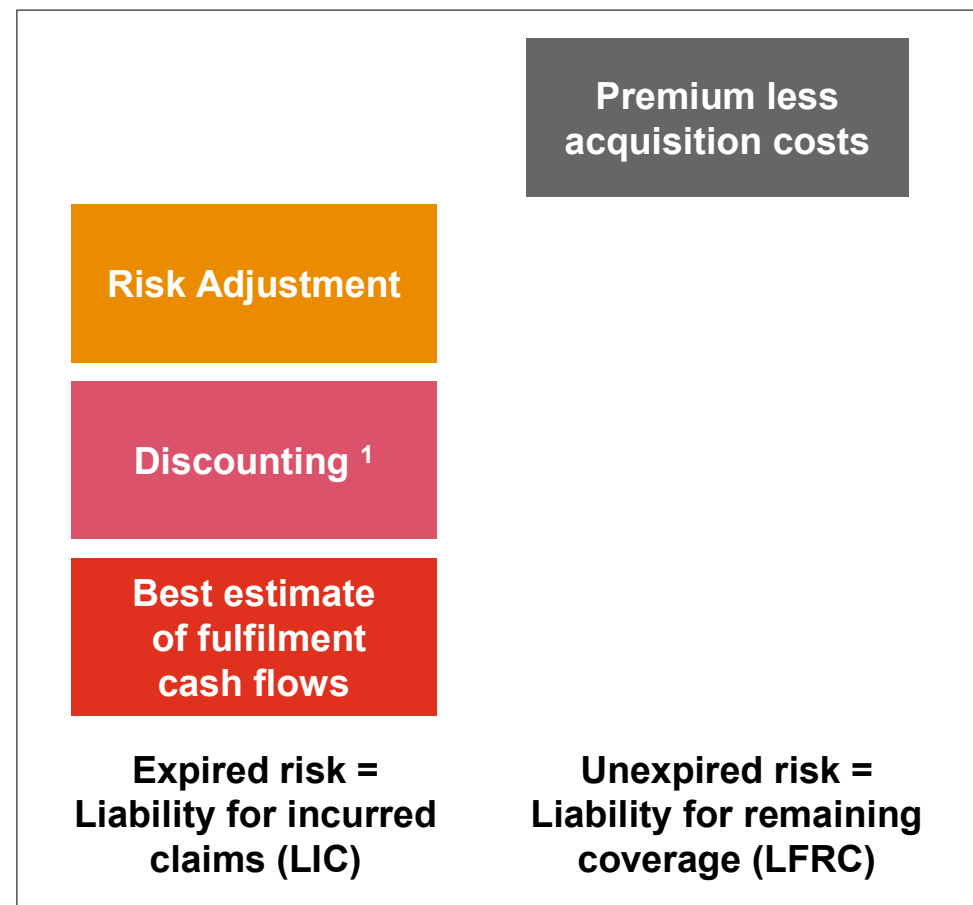
Variable fee approach (VFA): In the VFA most movements over a period unlock the CSM (at current rates) and so the impact is spread over the coverage period, whereas in the GMM, financial assumption changes/variances are recognised immediately in the P&L. A notable exception is where the Risk Mitigation Option is taken.

PAA Contracts

Optional model for short term contracts

- Optional simplified model for future cover based on premiums.
- Permitted for short duration contracts (period of cover ≤ 1 year) or where 'would not differ materially' from the General Model (LFRC only).
- 'Would not differ materially' does not apply when entity expects significant variability in the pre-claim cash flows.
- Incurred claims liability (including IBNR) calculated in the same way as for the General Model.

¹ Additional simplification excludes discounting where cash flows are expected to be paid or received in one year or less.



2

How do the IFRS
17 disclosures
look?

Income Statement (L&G FY23 example)



Insurance service result (non-financial)

- *Insurance Revenue*, reflects the consideration to which the entity expects to be entitled in exchange for the provision of services arising from the groups of contracts issued.
- *Insurance Service Expenses*, reflecting the actual claims and expenses in the current period
- With this additional line for reinsurance on the above items - *Net expense from reinsurance contracts held*

Insurance finance result (financial)

- *Insurance finance income or expenses (IFIE)*, reflect the changes in the carrying amount of the group of insurance contracts that relate to financial risks. IFIE comprises the effect of the time value of money (i.e. accretion of interest on all of the fulfilment cash flows and the contractual service margin) as well as the effect of financial risk and changes in financial risks.
- With this additional line for reinsurance on the above items - *Finance income from reinsurance contracts*

Source: https://group.legalandgeneral.com/media/o4harb42/legal-and-general-2023_annual-report-and-accounts.pdf

Consolidated Income Statement

For the year ended 31 December 2023	Notes	2023 €m	Restated ¹ 2022 €m
Insurance revenue	2(vi), 20	9,624	8,683
Insurance service expenses	3, 20	(8,373)	(7,497)
Insurance service result before reinsurance contracts held		1,251	1,186
Net expense from reinsurance contracts held	20	(137)	(145)
Insurance service result	20	1,114	1,041
Investment return	27	32,973	(98,352)
Finance (expense)/income from insurance contracts	27	(5,830)	19,114
Finance income from reinsurance contracts	27	584	6
Change in investment contract liabilities	21	(27,116)	79,889
Insurance and investment result		1,725	1,698
Other operational income		1,571	1,646
Fees from fund management and investment contracts	2(vi)	825	899
Acquisition costs		(149)	(103)
Other finance costs	22	(347)	(290)
Other expenses	3	(3,430)	(2,911)
Total other income and expenses		(1,530)	(759)
Profit before tax		195	939
Tax expense attributable to policyholder returns	28	(119)	(71)
Profit before tax attributable to equity holders	2(vi)	76	868
Total tax credit/(expense)	28	248	(157)
Tax expense attributable to policyholder returns	28	119	71
Tax credit/(expense) attributable to equity holders	28	367	(86)
Profit for the year		443	782
Attributable to:			
Non-controlling interests		(14)	(1)
Equity holders		457	783
Dividend distributions to equity holders during the year			
	4	1,172	1,116
Dividend distributions to equity holders proposed after the year end			
	4	871	829
		p	p
Total basic earnings per share²	5	7.35	12.84
Total diluted earnings per share²	5	7.28	12.47

1. Prior year comparatives have been restated to reflect the implementation of IFRS 17 and IFRS 9. They also reflect a small number of adjustments to the (unaudited) prior period comparatives that were included in the Group's interim financial statements for the period ending 30 June 2023. Further information can be found in Note 1. These corrections have been applied consistently to all affected disclosure notes in the consolidated financial statements.

2. All earnings per share calculations are based on profit attributable to equity holders of the Company.

Balance Sheet (L&G FY23 example)



- Reinsurance contract liabilities has been split from insurance contract liabilities for IFRS 17.
- Insurance and reinsurance contract debtors and creditors are no longer separately visible in the balance sheet.

Consolidated Balance Sheet

As at 31 December 2023	Notes	2023 £m	Restated ¹ 2022 £m	Restated ¹ 2021 £m
Assets				
Goodwill		73	71	68
Intangible assets	9	477	441	365
Investment in associates and joint ventures accounted for using the equity method		616	554	375
Property, plant and equipment	10	433	326	316
Investment property	11	8,893	9,372	10,150
Financial investments	11	471,405	446,558	537,629
Reinsurance contract assets	20	7,306	4,713	4,652
Deferred tax assets	28	1,714	1,440	1,167
Current tax assets	28	885	802	670
Receivables and other assets	13	9,780	13,209	8,543
Cash and cash equivalents	14	20,513	35,784	16,487
Total assets		522,095	513,270	580,422
Equity				
Share capital	32	149	149	149
Share premium	32	1,030	1,018	1,012
Employee scheme treasury shares	32	(147)	(144)	(99)
Capital redemption and other reserves		326	337	(135)
Retained earnings		2,973	3,707	4,033
Attributable to owners of the parent		4,331	5,067	4,960
Restricted Tier 1 convertible notes	33	495	495	495
Non-controlling interests	34	(42)	(29)	(38)
Total equity		4,784	5,533	5,417
Liabilities				
Insurance contract liabilities	20	91,446	78,214	93,627
Reinsurance contract liabilities	20	220	52	2
Investment contract liabilities	21	316,872	286,830	372,954
Core borrowings	22	4,280	4,338	4,256
Operational borrowings	22	1,840	1,219	932
Provisions	23	258	890	1,238
Deferred tax liabilities	28	107	206	60
Current tax liabilities	28	77	69	84
Payables and other financial liabilities	24	78,439	93,905	73,858
Other liabilities	35	680	763	1,028
Net asset value attributable to unit holders		23,092	41,251	26,966
Total liabilities		517,311	507,737	575,005
Total equity and liabilities		522,095	513,270	580,422

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Source: <https://group.legalandgeneral.com/media/o4harb42/legal-and-general-2023-annual-report-and-accounts.pdf>

Insurance Contract Notes (L&G FY23 example)

Annuities – Insurance contracts issued

Reconciliation of the liability for remaining coverage and the liability for incurred claims



This note discloses the reconciliation from the opening to the closing balances of the LRC (liability for remaining coverage) and the LIC (liability for incurred claims).

- IFRS 17 requires a reconciliation of any loss component within the LRC separately from reconciliation of the LRC excluding any loss component
- This is shown separately for contracts issued and reinsurance contracts held and by product line
- This is because the liabilities under IFRS 17 need to show whether a claim has been incurred and the existence of any loss component: LIC, LFRC excl. LC, and LC
- The blue box shows that most of the IFIE for L&G is driven by the annuity business (5,841 of the total 5,830 IFIE). This is mainly because the protection business adopts the OCI option.

NB: Note 20 also includes the same tables for reinsurance and Protection business but we have used included Annuity insurance contracts as an illustrative example.

Source: https://group.legalandgeneral.com/media/o4harb42/legal-and-general-2023_annual-report-and-accounts.pdf

(iii) Annuities – Insurance contracts issued

(a) Reconciliation of the liability for remaining coverage and the liability for incurred claims

	Liability for remaining coverage		Liability for incurred claims 2023 £m	Total 2023 £m	Liability for remaining coverage		Liability for incurred claims 2022 £m	Total 2022 £m
	Excluding loss component	Loss component			Excluding loss component	Loss component		
	2023 £m	2023 £m			2022 £m	2022 £m		
Opening insurance contract liabilities	73,664	6	59	73,729	87,599	8	36	87,643
Opening insurance contract assets	-	-	-	-	-	-	-	-
Net balance as at 1 January	73,664	6	59	73,729	87,599	8	36	87,643
Insurance revenue	(6,612)	-	-	(6,612)	(5,722)	-	-	(5,722)
Incurred claims and other insurance service expenses	-	-	5,215	5,215	-	-	4,562	4,562
Amortisation of insurance acquisition expenses	19	-	-	19	14	-	-	14
Changes that relate to past service	-	-	4	4	-	-	2	2
Losses and reversal of losses on onerous contracts	-	(2)	-	(2)	-	(2)	-	(2)
Insurance service expenses	19	(2)	5,219	5,236	14	(2)	4,564	4,576
Insurance service result	(6,593)	(2)	5,219	(1,376)	(5,708)	(2)	4,564	(1,146)
Finance expenses/(income) from insurance contracts	5,841	-	-	5,841	(18,944)	(1)	-	(18,945)
Effect of movements in exchange rates	(328)	(1)	(1)	(330)	537	1	2	540
Total amount recognised in comprehensive income	(1,080)	(3)	5,218	4,135	(24,115)	(2)	4,566	(19,551)
Investment components	(399)	-	399	-	(471)	-	471	-
Cash flows								
Premiums received	14,535	-	-	14,535	10,716	-	-	10,716
Claims and other directly attributable expenses	-	-	(5,603)	(5,603)	-	-	(5,014)	(5,014)
Insurance acquisition cash flows	(90)	-	-	(90)	(65)	-	-	(65)
Total cash flows	14,445	-	(5,603)	8,842	10,651	-	(5,014)	5,637
Closing insurance contract liabilities	86,630	3	73	86,706	73,664	6	59	73,729
Closing insurance contract assets	-	-	-	-	-	-	-	-
Net balance as at 31 December	86,630	3	73	86,706	73,664	6	59	73,729

FRC thematic review of HY23 IFRS 17 disclosures

15 November 2023






“Overall, we were pleased with the quality ... however we did identify areas for improvement and believe almost all companies within our sample [of 10] could make improvements ...”

Review focused on the adequacy of disclosures & not reasonableness of assumptions/ methods, across:

- Transition
- Accounting policies, judgements & estimates
- Measurement: cash flows, discounts rate, RA & CSM
- VFA & PAA eligibility
- IFRS 9
- Alternative Performance Measures (APMs) etc.

Over 50 findings classified as follows:

-  A good quality application that we want other companies to consider when preparing their annual reports.
-  Opportunities for improvement by companies to move them towards better practice.
-  An omission of required disclosure or other issue. We want companies to avoid such issues in their annual reports.

Further thematic to be performed on FY23 disclosures.

Areas of ‘omission’ included:

Transition: *“While it was clear which transitional approach had been used & why, quantitative information was not always provided to fully explain the impact ...”* and *“Nearly all the companies that applied the FV approach on transition did not explain the key judgements, assumptions & valuation inputs ...”*

Granularity: *“... we recognise that the disclosure requirements for interim ... are not as detailed or prescriptive as those for [full year], the lack of disaggregation meant that the full extent of the impact of IFRS 17 was not always clear.”*

APMs: *“Several companies ... did not explain how the use of APMs had changed [on adoption] or disclose the impact on the value of APMs, or on trends ...”*

Tax: *“Most .. did not explain the tax impact of the adoption of IFRS 17. ... Where the effect is material, we expect companies to adequately explain the key drivers impacting the current and deferred tax balances.”*

3

Practical challenges

IFRS 17 practical challenges



Practical challenges

Operational complexity & manual activity

- Using strategic IFRS 17 systems, which are fully integrated end-to-end, was a challenge for some insurers.
- As a consequence, this has led to a proliferation of tactical manual workarounds for some insurers.

Data challenges

- IFRS 17 introduces significant new data requirements, including more granularity and requiring accounting and actuarial data to be aligned.
- Data gaps and quality issues were identified by some insurers, plus end-to-end data flows were often manual.

Control framework weakness

- Control environments were often being developed in parallel or after system develop and were typically immature and not embedded.
- Due to the tactical workarounds, automated controls were not being executed - increasing risk and adding time pressure to the working day timetable (WDT).

WDT slowdown

- Insurers aimed to maintain their pre-IFRS 17 WDT but saw a deterioration due to the operational, data and control challenges. Some reporting dates were scheduled later.
- Slowdowns were across the end-to-end process, including actuarial models, CSM calculations and production of disclosures.

People challenges and increased costs

- Many business as usual (BAU) employees have not been brought along the IFRS 17 reporting journey and are often not sufficiently trained to run the new processes.
- Some insurers are continuing to draw on external resources to augment existing BAU teams.

Potential next steps

Post implementation review

- A post-implementation review will help develop a realistic remediation plan.
- Remediation efforts will be unique to each insurer, its architecture, ways of working and long-term ambition.

Improve data integrity

- Understanding the source, materiality and downstream impact of data defects is an immediate action.
- When focusing on how to address these data challenges, insurers are balancing efforts between finance transformation and IFRS 17 remediation.

Enhance control framework

- Reflect on the quality and effectiveness of controls, to critically inform how to improve accuracy, efficiency and auditability.
- Insurers are focusing on processes leading to the most material issues when prioritising controls. Implementing end state architecture will help improve control quality.

Assess new capabilities

- Review technological capabilities such as AI, to improve workforce productivity. In parallel, insurers are reviewing their finance structure, including roles and responsibilities to optimise processes and address resource challenges.

4

Accounting topics

Key IFRS 17 technical and reporting topics



Technical

- **Transition approach (Life):** Insurers needed to decide which transition approaches (FRA, MRA and FVA) were appropriate for the various groups of contracts; and then significant judgements in application (e.g. fair value calibration). The day 1 equity impact on adopting IFRS 17 can be significant.
- **CSM emergence for annuities (Life):** The most debated topic for UK annuity writers. The approach for immediate annuities was confirmed by IFRIC, but judgement remained for deferred annuities.
- **PAA eligibility (Non-Life):** The most debated topic for non-life insurers, in particular, the granularity of the test and the judgmental nature of the 'does not differ materially' threshold.
- **Discount rates (Life & Non-life):** Insurers needed to determine which discount rate assumptions to use, i.e. choosing an appropriate illiquidity premium for annuity (top-down) and other business (primarily bottom-up).
- **Risk Adjustment (Life & Non-Life):** Determining the 'compensation' the insurer requires for non-financial risk is a new concept in IFRS 17 (compared to more opaque allowances for risk in IFRS 4). Different methods were used.

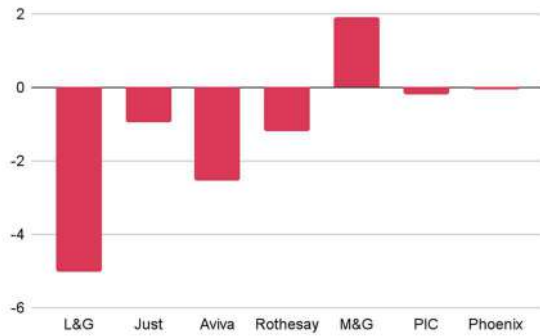
Reporting

- **Adjusted operating profit (AOP):** Insurers have made adjustments to the definition of AOP (a key Alternative Performance Measure) following the introduction of IFRS 17.
- **Combined operating ratio (Non-Life):** Since there is no standard method of calculation, insurers have used varying definitions to calculate the IFRS 17 combined operating ratio (COR).

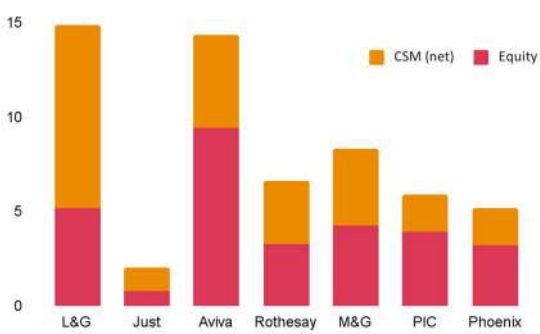
What was the impact on adopting IFRS 17 for UK life insurers?



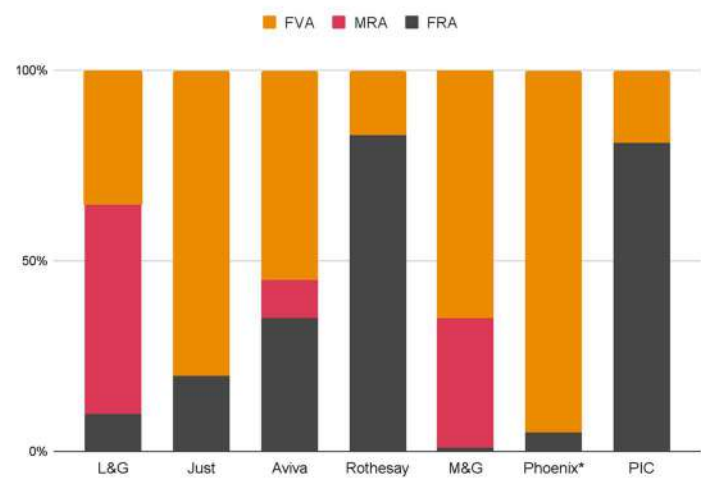
Change in equity at 1 January 2022 (transition) (£bn)



Adjusted equity at FY22 (£bn)



% of net of reinsurance CSM at transition by method¹



- Directional impact on transition to IFRS 17 are as expected.
- Hard to assess the relative size of the impact as it depends on size/age, organic/acquired contracts, transition method, calibration of fair value (where applied), size of IFRS 4 prudence margins etc.

Source for all charts: Analysis and interpretation of selected life insurer disclosures at HY23 including earlier public announcements. There were no significant revisions at FY23 to revise this analysis

¹FRA: Fully Retrospective Approach, MRA: Modified Retrospective Approach, and FVA: Fair Value Approach.

* Actual is 58% (FRA) & 42% (FVA). However, in the chart (and as presented by Phoenix) amounts relating to ReAssure acquired in 2020 and fair valued at that date are presented as FVA (rather than FRA).

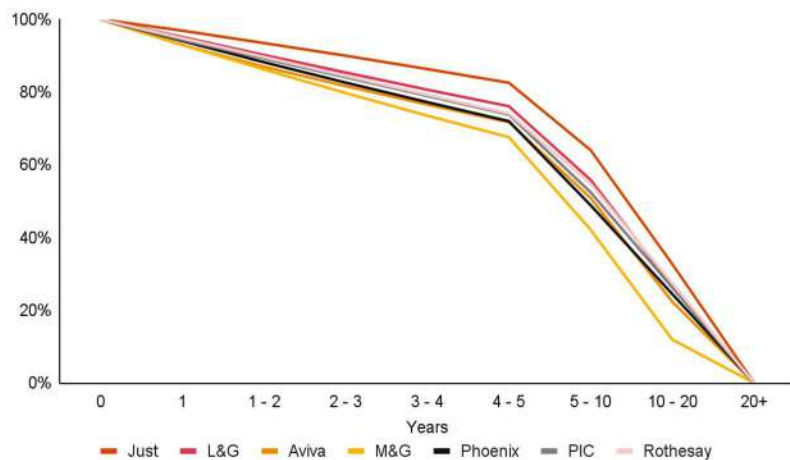
CSM emergence for annuities



- CSM represents the unearned profit recognised over the life of the contract and is released with coverage units that reflect the benefits provided.
- For immediate annuities, the CSM is calculated and released based on the pattern of annuity payments, as clarified by the IFRIC.
- For deferred annuities, there is key judgements in weighting the services between the deferred and payment phases.

Components	L&G	Just	Aviva	Rothesay	M&G	PIC	Phoenix
Weighting between phases	'Target' CSM	'Equivalent' service	'Target' CSM	'Target' CSM	Not disclosed	Same 'value' across phases	'Consistent level of service' on transition

Net of reinsurance CSM release for annuities (FY23)

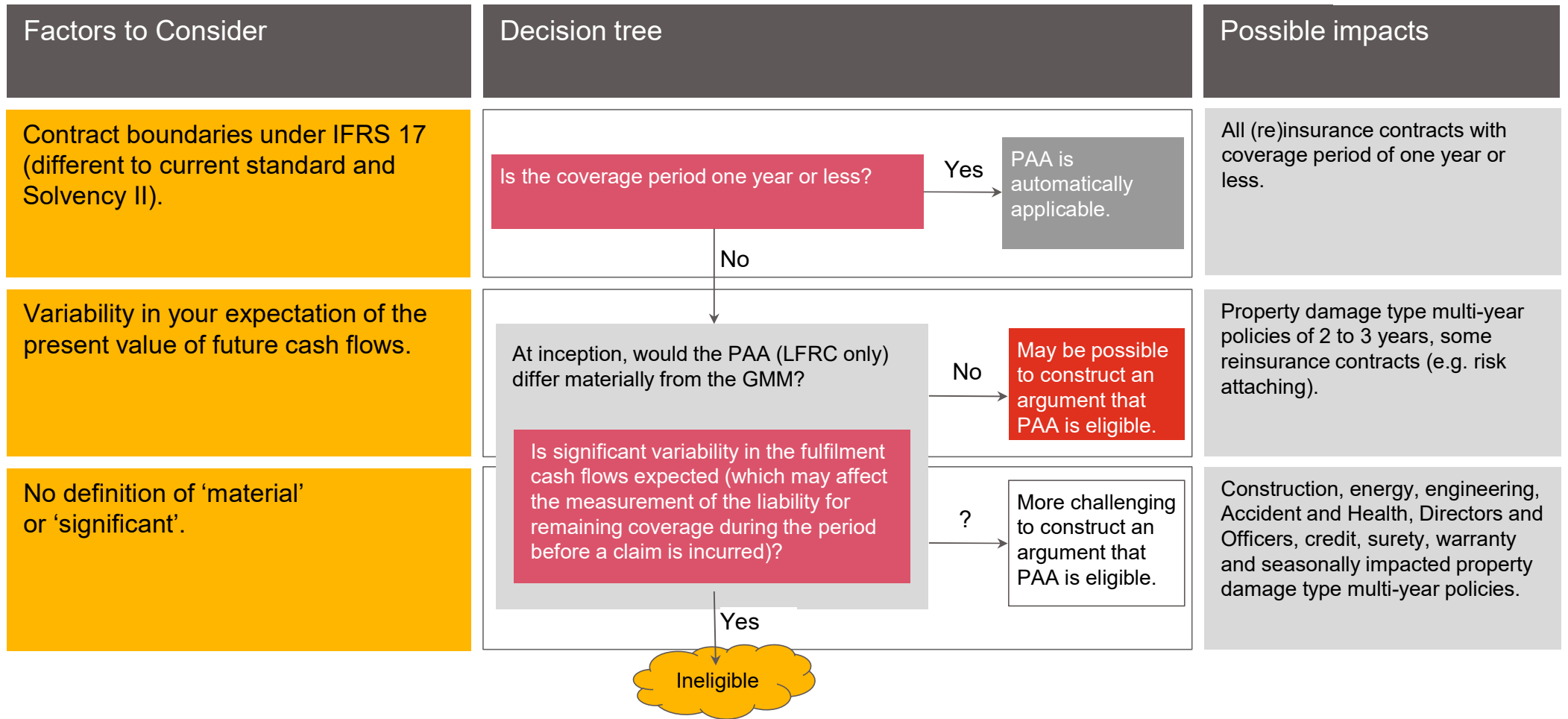


It is difficult to compare the release of the CSM due to the various factors driving the patterns, e.g.:

- Age of business and mix of immediate/deferred annuities.
- Amortisation approach, notably weighting of services and rate to discount.
- Level/type of reinsurance.
- Disclosure approach (e.g. aggregation of business lines, treatment of interest accretion).

Source: PwC analysis and interpretation of FY23 and related external disclosures

Key judgement in assessing PAA eligibility



Discount rates - life insurers



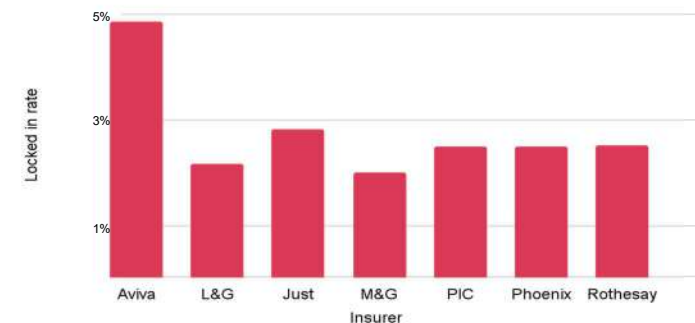
Annuities: FY 23 (implied) illiquidity premium

Insurer	Illiquidity premium (bps)
Aviva	c. 170-180 bps
Just	c. 210-215 bps
L&G	c. 160 bps
M&G	c. 168 bps
Phoenix	173 bps
PIC	c.160 bps
Rothesay	141 bps

Non-Annuities: FY 23 illiquidity premium

Insurer	Illiquidity Premium
Aviva	With-profits: c. 30-50 bps Protection: c. 30-40 bps
L&G	Protection: c. 75 bps
M&G	With-profits: 47 bps
Phoenix	With-profits: 20 bps / 107-173 bps (liquid / illiquid)

2023 locked-in rates for annuity fair value cohort



Source for all charts: PwC analysis and interpretation of FY23 and related external disclosures

'Top-down' approach for annuities:

- Yield on a reference portfolio is adjusted to reflect both the expected and unexpected default risk, but no requirement to adjust for liquidity differences.
- Significant judgement is required to select the reference portfolio (e.g. actual asset vs. target mix) and over the allowance for default risk.

'Bottom-up' approach for non-annuities:

- Commonly used for with-profit and protection contracts.
- Starts with a risk-free rate curve to which an illiquidity premium is added reflecting the liability-related illiquidity, and is key judgement.

Discount rates - non-life insurers (UK & EU)



Yield curves range by duration



Source for all charts: PwC analysis and interpretation of FY23 and related external disclosures

In our sample, all insurers used a 'bottom up' approach. The illiquidity premium was typically estimated based on adjusting market-observable liquidity premiums in financial assets.

Risk adjustment



Life insurers

Risk adjustment percentile

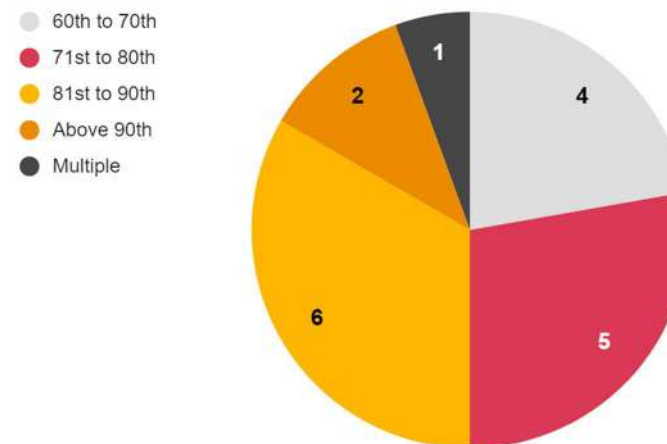
Insurer	'1 year view' view	'To ultimate' view
Aviva	Not disclosed (HY 23: 85 th -90 th)	68 th (HY 23: 70 th)
HSBC	75 th	Not disclosed for UK business
Just	c.90 th	70 th
LBG	90 th	70 th
L&G	85 th	c.75 th
M&G	75 th	60 th
Phoenix	80 th (Gross)	61 st (Gross)
PIC	85 th	70 th (HY 23: 68 th)
Prudential	75 th	Not disclosed
Rothsay	91 st (HY 23: >90 th)	65 th

Source for all charts: Analysis and interpretation of selected life insurer disclosures at FY23 including earlier public announcements

¹ The 'Multiple' risk adjustment confidence level category includes companies that have not disclosed an overall confidence level but have instead disclosed different confidence levels for different parts of their business.

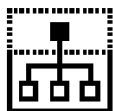
Non-life insurers (UK & EU)

RA confidence level disclosed (number of companies) ¹



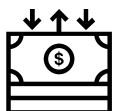
- A range of methods were adopted for life insurers, with a value-at-risk approach the most common. For Life insurers, this is often applied as margin to the best estimate cash flows for modelling purposes. At FY23 most life insurers disclosed both the 1-year and ultimate view percentile, and with most not making changes to the disclosed percentiles since HY23.
- The approaches used for GI business were more varied, with a confidence level approach and cost of capital approach being the most common approaches. The GI confidence level disclosures were also more variable (e.g. range vs point estimate, time horizon, gross vs. net, incurred vs. total claims etc.).
- The key judgement across both life and GI companies related to the calibration of the compensation that insurers required to take on risks, which was often linked back to pricing and capital allocation metrics.

Other observations - life insurers



Classification & options

- Whilst with-profit and unit linked insurance products are typically VFA eligible, a few insurers use the general model for products with certain guaranteed annuity terms.
- Some insurers reclassified hybrid unit-linked contracts to IFRS 17.



Mixed approaches to expense cash flows

- For some insurers the IFRS 17 expense cash flows are similar to those in IFRS 4 and Solvency II, while, for others, the IFRS 17 expenses are less.



With-profit approaches

- All insurers recognised equity within with-profit funds on transition to IFRS 17. This was previously part of the unallocated divisible surplus liability.
- Potential differences between open and closed with-profit funds in the definition of underlying items and the variable fee, the treatment of the estate and how mutualisation is allowed for.



Adjusted operating profit

- Two separate schools of thought on the treatment of the CSM, with some insurers excluding the impact of the CSM in AOP.
- Certain adjustments remain unchanged (e.g. long-term expected returns, non-recurring costs) albeit the application may be different in IFRS 17.
- Common to adjust for certain IFRS 17 mismatches (e.g. due to the locked-in CSM and non-profit business in with-profit funds).

Other observations - non-life insurers (UK & EU)



Combined operating ratio (COR)

- Generally defined as the level of claims and technical expenses incurred during the period relative to insurance revenue. However, there is variability with the most common differences being whether the denominator (i.e. insurance revenue) is gross or net of reinsurance and allowing for non-attributable expenses.
- All disclosed the ratio on a discounted basis whilst some also disclosed the undiscounted ratio.



OCI option for disaggregating IFIE

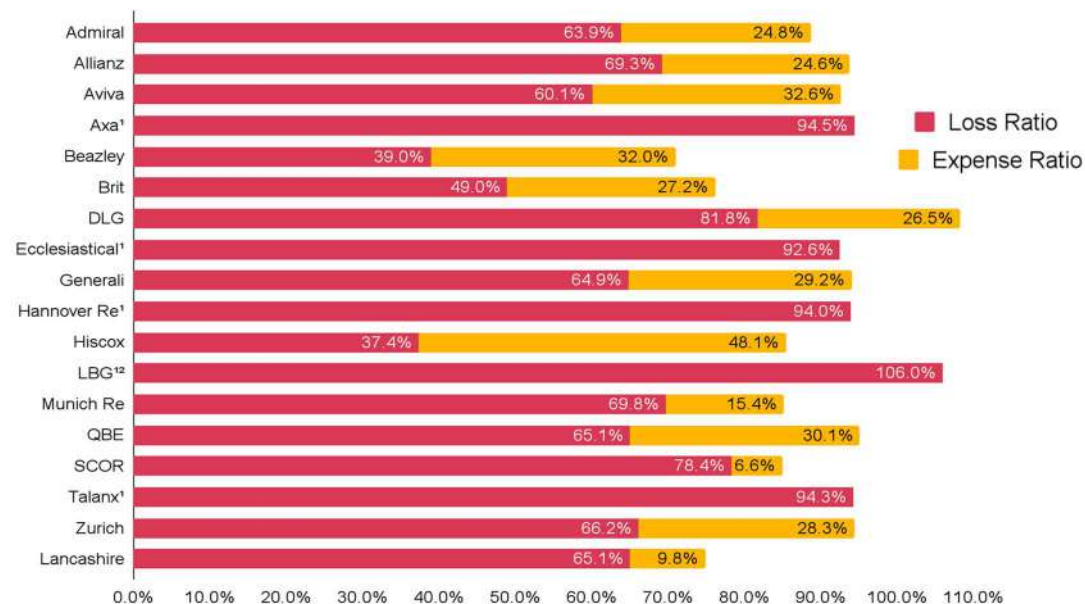
- Only one non-life insurer in the UK chose to use the OCI option, while it was more common in continental Europe.



GWP and Insurance Revenue

- Many companies disclosed GWP (and/or NWP) as a key financial metric although it is no longer presented as a line item in the income statement) and presented this alongside insurance revenue (or net insurance revenue).

FY23 discounted COR



Source: PwC analysis and interpretation of YE23 and related external disclosures

¹ Split of loss ratio and expense ratio not disclosed

² Assumed to be on a discounted basis

IFRS 9 impacts



Life insurers

- Insurers that were already using FVTPL (fair value through profit or loss) under IAS 39 saw limited impact when transitioning to IFRS 9 since the same approach was largely able to be justified.
- Two insurers (L&G and Just) introduced a significant asset portfolio classified and measured at amortised cost. This was to partially back the CSM on annuity business.

Non-life insurers

- In the UK, the majority of insurers already used FVTPL and as this was retained on moving to IFRS 9.
- Where insurers the FVOCI (fair value through OCI) the majority have elected to take discount rate changes to OCI in IFRS 17 also. This is more common for insurers based in Continental Europe.



Thank you

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Session 2:

Life observations

Jo Clube

Life observations

Topics



IFRS 17 Statutory Disclosures



Alternative performance
measures



User Feedback on first year of
IFRS 17 reporting



Practical Challenges

IFRS 17 Statutory Disclosures

- Performance related disclosures
 - Insurance revenue
 - Net financial result

- Balance sheet disclosures
 - Carrying amounts of insurance liabilities
 - Movement of balances

Linking balance sheet and performance information

- Effect of contracts recognised in the year
- CSM emergence
- Onerous contracts recognised

IFRS 17 based alternative performance measures

Objectives of APMs are clear – but differences in approach remain

Operating profit

- All life insurers continue to exclude economic variances
- There are differences in approach with respect to other forms of volatility
 - CSM/BEL mismatch
 - Reinsurance
 - NP business in WP funds

Operating value added

- Key measure of performance including future store of value generated from new annuity sales
- All annuity writers using some form of KPI to show value added, although there is variation in approach
- L&G and Phoenix focus on CSM added
- Annuity monolines Rothesay, PIC and Just are continuing with an IFRS 4 basis for operating profit – i.e. upfront recognition of annuity profits with CSM movement recognised below

Adjusted shareholders' equity

- Consistent definition – CSM+ IFRS equity
- Good basis for peer comparison
- Demonstrates impact of transition judgements on relative balance of CSM vs IFRS equity
- Balances out difference due to treatment of economic variances fair value P&L vs fair value OCI

Effective market communication remains challenging

User feedback on first year of IFRS 17 reporting

The good

- IFRS 17 aligns better with solvency II, helping to explain capital position & performance, including OFG and OCG
- CSM emergence and roll forward helpful information in understanding growth in life profits
- Analysis of components on FCF enable more transparency on reserving

The bad

- Judgement and choices in IFRS 17 reduce comparability – volatility remains with differing approaches to manage / mitigate
- Risk adjustment disclosures remain difficult to understand / compare
- Appropriate basis to measure leverage remains unclear and lack comparability

The Ugly

- Complexity drives up the cost of capital – IFRS 17 is undoubtedly complex
- UK Style With Profits does not fit well with IFRS 17 principles
- No good IFRS basis to measure value & performance of the whole business (i.e. investment & savings business measured under IFRS 9)

IFRS 17 Life Reporting Practical Challenges

The list is long – a few examples:

- Granularity of disclosure means huge data challenge
- IFRS 17 roll forward tables – very detailed and hard to penetrate
- The CSM calculation – makes closing the books very challenging
- With Profit accounting in general
- Inter company transactions where one side impacts CSM

Session 3:

Non-life observations

Andrew Halim

Non-life observations

Topics



Measurement models



Discounting



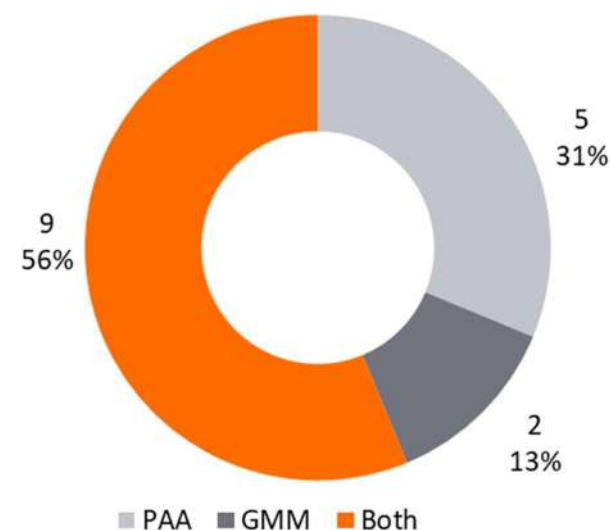
Risk adjustment and confidence level disclosure



Additional performance measures

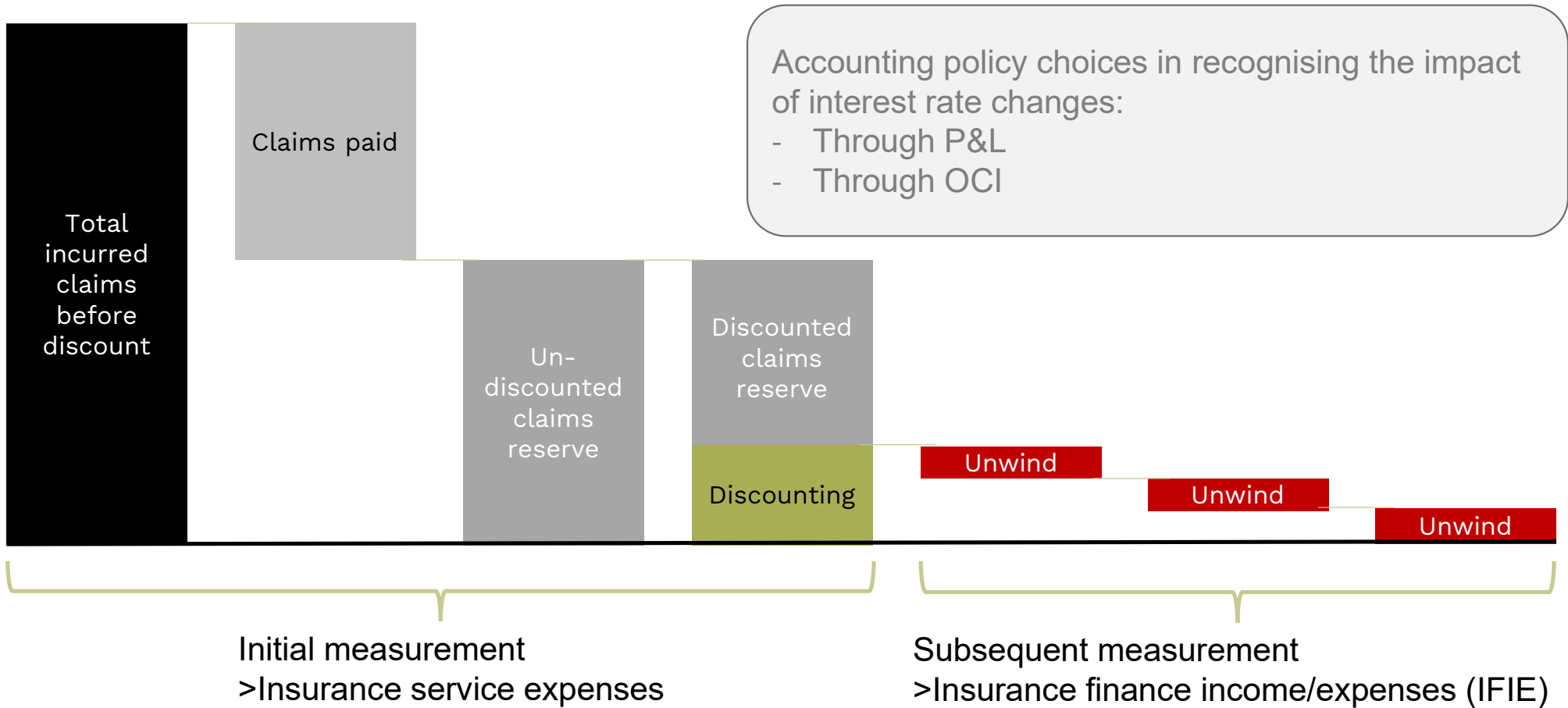
Measurement models for unearned premium

- Premium allocation approach
 - Similar to Unearned Premium Approach (UPR) under UK and US GAAP
 - Allowing risk emergence-based earnings (seasonality)
 - Option to expense acquisition costs when incurred
- General measurement model
 - A single measurement model for all business
- PAA eligibility drivers of differences
 - Seasonal earnings
 - Discounting
 - Profitability (size of CSM)



Source: EY survey

Discounting



Example of discounting

Assume:

Incurred claims of \$300m in Year 0

Claims to settle evenly over the next 3 years

Discount rate is 5% in Year 0 and 1

Increased by 300bps in year 2 to illustrate the impact of changes in discount rate

	Year				
	0	1	2	3	Cumulative
Expected Cashflows					
Expected claims payments		100.0	100.0	100.0	300.0
Expected Balance Sheet					
Undiscounted claims liabilities	300.0	200.0	100.0	0.0	
Discounting credit	(27.7)	(14.1)	(7.4)	0.0	
Discounted claims liabilities	272.3	185.9	92.6	0.0	
Expected P&L					
Movement in claims liabilities	300.0				300.0
Movement on discounting	(27.7)				(27.7)
Total incurred claims	272.3				272.3
IFIE (unwind of discounting)		13.6	9.3	7.4	27.7
IFIE (changes in discount rate)			(2.6)		
Profit before tax	272.3	13.6	6.7	7.4	300.0

Risk adjustment and confidence level disclosure

- Adopted approaches
 - Percentile approach combined with scenario-based modelling
 - Cost of capital approach
- Confidence level disclosure is useful for year-on-year comparison but **not** to compare one insurer to the other

Additional performance measures

- Written premium metric
- Prior year development i.e. reserve releases (undiscounted)
- Combined operating ratio (COR)
 - Discounted and undiscounted
 - Net vs gross insurance revenue
 - Treatment of non-attributable expenses
 - Impact of retrospective reinsurance coverage and acquired business

Session 4

The users' perspective

Anna Bender / Alex Rafferty



IFRS 17– RATING AGENCY APPROACH AND GC AS A USER

GC ANALYTICS & ADVISORY – RATINGS AND COUNTERPARTY CREDIT ADVISORY

June, 2024

Alex Rafferty
Anna Bender

A business of Marsh McLennan

1. How Credit Rating Agencies are Adjusting to IFRS 17
2. Guy Carpenter as a User of IFRS 17

Agenda

How Credit Rating Agencies are Adjusting to IFRS 17

What it means for the rating agencies and our rated clients



Rating Agency Scrutiny

Company issued financial statements, regardless of reporting standard, form the base of credit rating analysis.

- **Rating agency interpretation of the fundamental principles of IFRS 17 (and changes vs IFRS 4) and what this means for the rating fundamentals of rated companies, is of critical importance. Rating agencies will monitor, review and clarify their approach to IFRS 17 over time.**



Impact on Ratings

AM Best, Standard & Poor's, Fitch and Moody's are reporting standard agnostic. Their intent is to assess an economic view of rated (re)insurers. Rating agencies already contend with, and will continue to contend with, multiple reporting frameworks across their rated populations (e.g. IFRS, US GAAP, and other local GAAPs).

- **However, the four rating agencies have their individual views on how to treat items such as the CSM, the RA and other changes within their respective capital models and rating metrics and as a result, in their overall ratings.**

"Second order impacts"

The rating agencies have noted that to the extent the introduction of IFRS 17 results in "second order impacts", these may have an impact on existing credit ratings.

Some examples of "second order impacts" may include, but are not limited to:

- difficulties in implementation of the standard and compliance with regulatory/reporting deadlines;
- emergence of underlying trends that were not previously identifiable;
- changes to strategies, risk appetites, and business models to an extent that they can change the rating.

Guy Carpenter as a User of IFRS 17

What it means for us

Duty of Care

- It is our duty to select reinsurers in good financial health for our clients.
- In addition, we have a continuing duty of care to keep our clients informed of any information which could indicate that the reinsurer is no longer in good financial health.
- We give clients access to our proprietary platform which houses analysis reports, financial data, credit rating information and more.
- The introduction of IFRS 17 requires us to change our financial reports – layout, metrics and challenges comparability over the longer term – and we need to keep up to ensure our clients have the information they need to support their reinsurer selection decisions.



Guy Carpenter & Company, LLC
LOYD'S OF LONDON
Syndicate Report

Agency	Active Underwriter	Managing Agent	Agency Cover	Capacity	COI	COI	COI	COI	COI	COI	COI	COI	COI	COI	COI	COI	COI	COI	COI
1111	ABC	DEF	GHI	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1112	ABC	DEF	GHI	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
1113	ABC	DEF	GHI	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300
1114	ABC	DEF	GHI	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
1115	ABC	DEF	GHI	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500
1116	ABC	DEF	GHI	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600
1117	ABC	DEF	GHI	700	700	700	700	700	700	700	700	700	700	700	700	700	700	700	700
1118	ABC	DEF	GHI	800	800	800	800	800	800	800	800	800	800	800	800	800	800	800	800
1119	ABC	DEF	GHI	900	900	900	900	900	900	900	900	900	900	900	900	900	900	900	900
1120	ABC	DEF	GHI	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

A Global Team of Ratings Advisory Experts

Our team of experts is composed of former rating analysts from AM Best, Standard & Poor's and Fitch. Together we have successfully supported dozens of clients across the world in their journeys to obtain credit ratings, improve ratings, strengthen and defend their ratings



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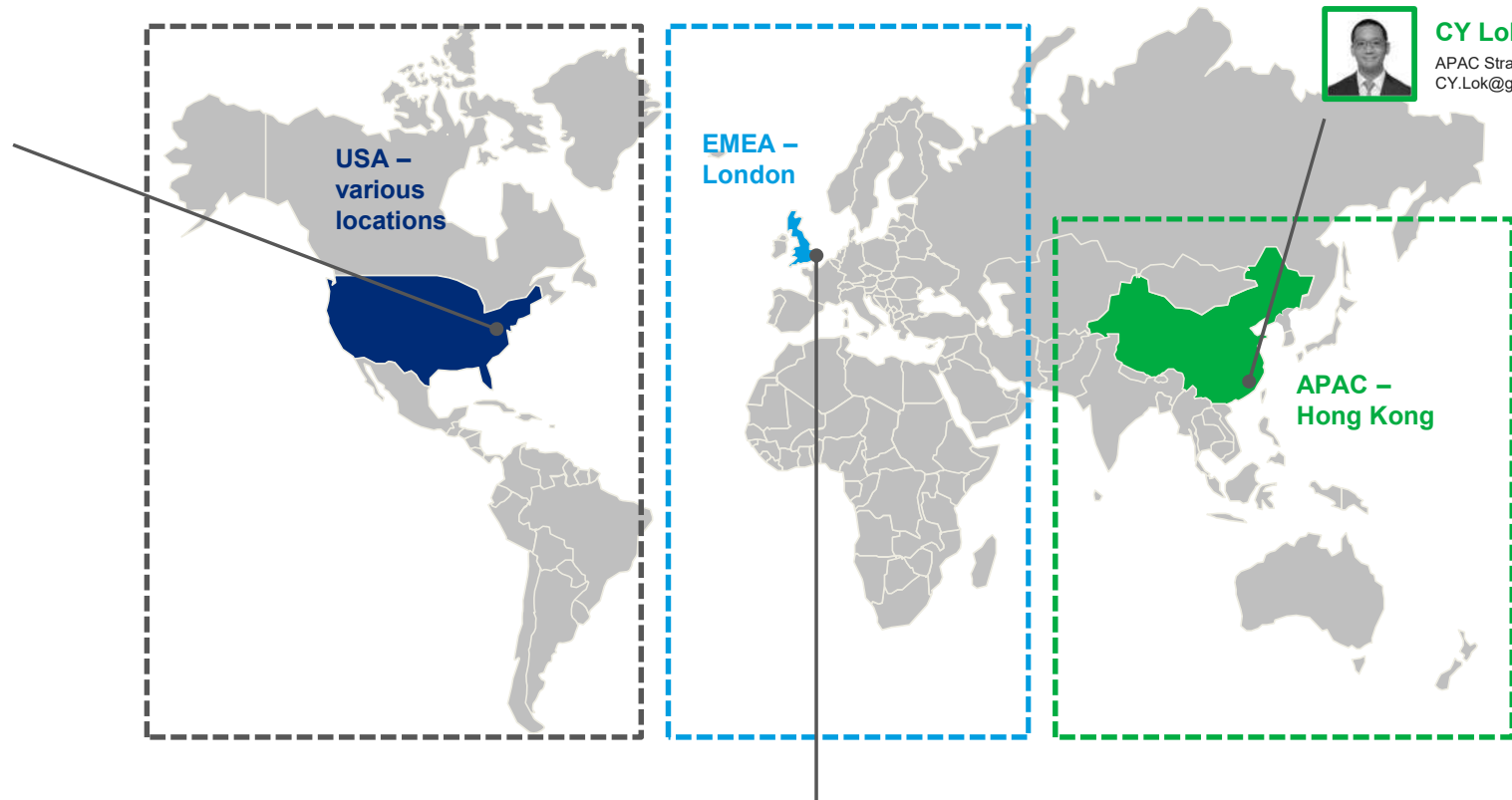
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Session 5: panel – what next!

- Is IFRS 17 now done, or what issues do you still perceive there to be (whether policy or practical)?
- How long might it take for the market to get comfortable with the new standard? (ie how many years before comfortable with the trends, or what the KPIs / APMs show)
- How might IFRS 17 affect the insurance market?

Session 6

Questions and Answers



Did you know?

From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).

