Insurers' first reporting under IFRS 17 and IFRS 9

Real-time IFRS 17

—

June 2023

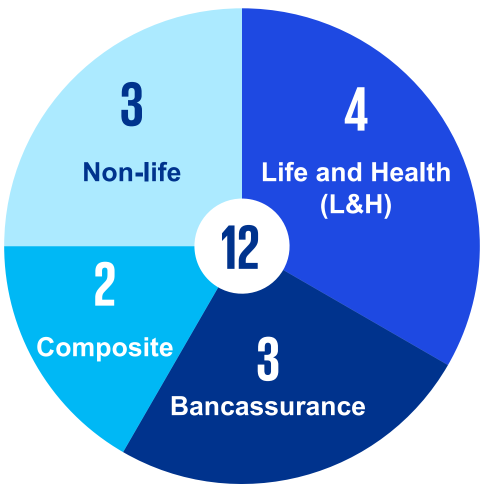
What did we look at?

IAS 34 interim reports

Some insurers have reported under IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* for the first time.

In this publication we bring you our key observations from the first-quarter interim reports of **12 insurers** that were prepared under IAS 34 *Interim Financial Reporting*, including:

- the IFRS 17 disclosures included in the reports; and
- the comparatives presented for these disclosures.



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Key performance indicators (KPIs)

We also looked at the first-quarter trading updates of a further **36 insurers**. Although not IAS 34 interim reports, they include financial information prepared under IFRS 17 and IFRS 9.

For our total sample of **48 insurers**, we used these trading updates and IAS 34 interim reports information to analyse the KPIs reported following the adoption of IFRS 17.

Updates on accounting policies and significant judgements

In this publication we also provide an update to our previous analysis particularly on the status of insurers' IFRS 17 and IFRS 9 accounting policies and significant judgements (see Appendix B).

First IAS 34 interim reports – IFRS 17 disclosures

New disclosures under IFRS 17 provide valuable insight into insurers' businesses

From our analysis of **12 insurers**' first-quarter IAS 34[1] interim reports we noted the following[2].

10

insurers presented **reconciliations of insurance contract liabilities**

These reconciliations from opening to closing balances were provided separately for insurance contracts issued and reinsurance contracts held for the following.

- Liability for remaining coverage (LRC)
- Liability for incurred claims (LIC)
- Future cash flows
- Risk adjustment
- Contractual service margin (CSM)

6

of 9 insurers applying the GMM[3] and/or VFA[4], disclosed when they **expect to recognise the CSM in profit or loss**

One also provided a similar disclosure for **insurance acquisition cash flows**.

6

insurers disclosed the yield curve (or range of yield curves) used to **discount cash flows**

8

insurers presented **sensitivity disclosures**

Some provided the impact on the CSM; others used net profit and/or equity. Individual disclosures varied but the sensitivities were generally provided for mortality, morbidity, expense, interest rate and policy behaviour (lapse and renewal). Some also provided sensitivities for equity, property and spread risk.

8

insurers provided **confidence level disclosures** about the risk adjustment for non-financial risk

Some insurers provided a range; others provided a point estimate.

1 Insurers are not specifically required to include the disclosures listed in IFRS 17 in their interim reports under IAS 34. However, they provide valuable insight into and understanding of the line items presented in the income statement and balance sheet.

2 Segmentation differed by insurer. Some provided disclosures for the reporting company only; others provided them by line of business and/or geographical area. None of the insurers presented claims development tables.

3 General measurement model

4 Variable fee approach

First IAS 34 interim reports – Comparative information

All insurers have presented restated comparatives

From our analysis of **12 insurers**' first-quarter IAS 34 interim reports we noted the following.

- All **12** insurers presented **restated comparatives** as at 31 December 2022 for the balance sheet and for the three months ended 31 March 2022 for the income statement.
- However, the **note disclosure comparatives** for the reconciliations from opening to closing insurance balances **differed between the 10 insurers that provided these reconciliations**.
- Therefore, comparing the movements in insurance contract liabilities during 2022 between insurers, for example, is challenging because they have provided different comparative information.

Comparatives for reconciliations[1]

5

insurers provided reconciliations for the three months ended 31 March 2022

4

insurers provided reconciliations for the year ended 31 December 2022

1

insurer provided reconciliations for both the three months ended 31 March 2022 and the year ended 31 December 2022

1 Reconciliations from opening to closing insurance balances under paragraphs 100 and 101 of IFRS 17 for the 10 insurers that provided these note disclosures.

First IAS 34 interim reports – Specific disclosures on expected CSM release

For the first time, users will be able to analyse future profitability drivers of an insurer's business

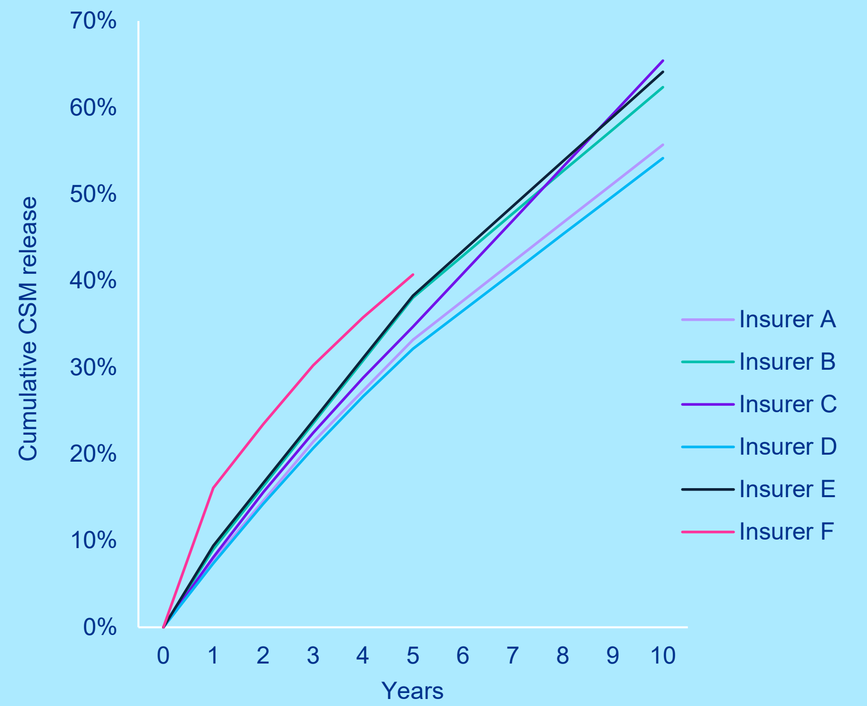
Six out of nine insurers applying the GMM or VFA disclosed the **expected recognition of CSM in profit or loss across future years.** This includes three L&H insurers, two bancassurers and one composite, all from the Americas. Some have detailed this by segment or location for both (re)insurance contracts issued and reinsurance contracts held.

The insurers' disclosures differed in the time bands disclosed, as follows.

- Near term – some provided the expected CSM release for each individual year up to year 5, whereas others provided the CSM release for time bands of less than one year, 1–3 years~~,~~ and 3–5 years.
- Long term – some provided only a single time band for 10+ years, whereas others provided more detail – e.g. 10–20 years and 20+ years.

In the diagram, we have normalised the time bands to illustrate these insurers' expected CSM recognition for the first 10 years (except for Insurer F, for which we could only summarise the first five years).

Expected recognition of CSM in profit or loss as at 31 December 2022[1]



1 The diagram is for indicative purposes only. In particular, the insurance contracts may differ in length and nature, the coverage unit determination may vary and we used a simplified average interpolation to determine the annual release when this was not specifically provided for an individual year.

First IAS 34 interim reports – Specific disclosures on discount rates

New disclosures under IFRS 17 on discount rates applied provide new insight into insurance contract measurement and results

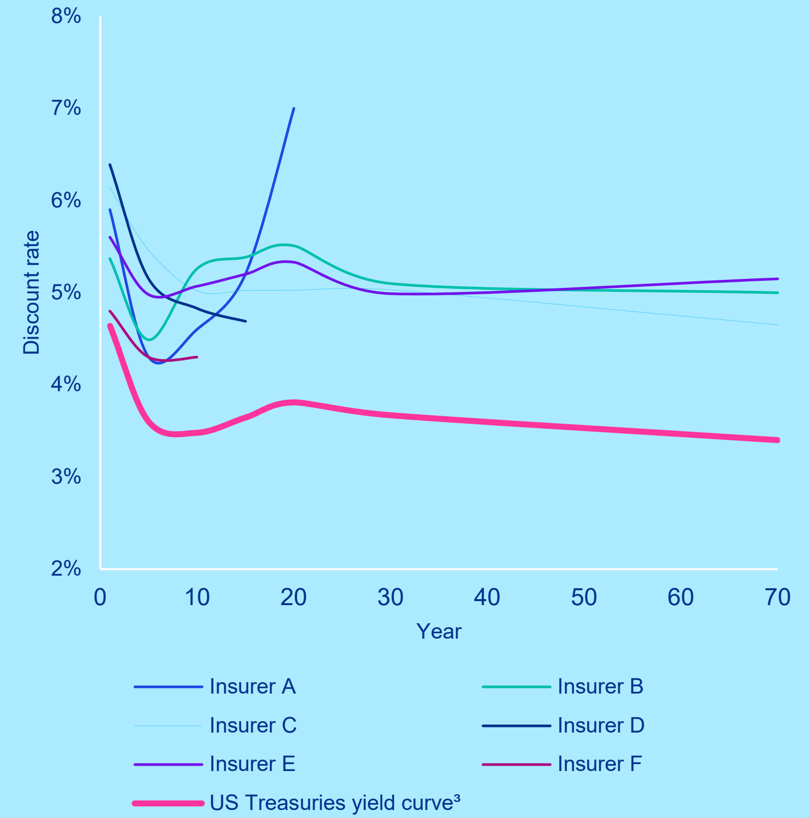
Six insurers from the Americas[1] disclosed their method for calculating discount rates (or their range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items. All six disclosed that market-observable data for creating yield curves is available for up to 30 years. Beyond this, they established yield curves using interpolation between the last observable point and the ultimate rate, set at 70 years. **Three** insurers only provided data for up to 10, 15 and 20 years respectively.

The above insurers differed in the time bands they disclosed for discount rates.

- All disclosed the 1-, 5- and 10-year rates.
- Insurers did not always disclose the 15-, 20- and 30-year rates and the ultimate rate.

The diagram is for indicative purposes and shows the most illiquid rates for which we have interpolated any missing data through a simple average of the two nearest data points. **Three** insurers provided insight about the differences between illiquid and liquid curves. For the USD, the maximum disclosed difference between these curves is 25 basis points, whereas the maximum disclosed difference for the Canadian dollar is approximately 170 basis points.

USD discount rates reported as at 31 March 2023[2]



1 Other currencies disclosed were GBP, EUR, HKD, NOK, SEK and CAD.

2 Note that the references to Insurers A–F on this slide do not necessarily correspond to those on the previous slide.

3 The yield curve for US Treasuries is provided for comparison. The ultimate rate used is based on the calculated ultimate forward rate for the USD provided by the European Insurance and Occupational Pensions Authority.

Key performance indicators – New business metrics

L&H insurers are incorporating the CSM into their new business metrics, while non-life insurers are typically using the same basis as under IFRS 4 *Insurance Contracts*

What metrics are L&H insurers (or L&H segments) using for reporting on the value of new business?

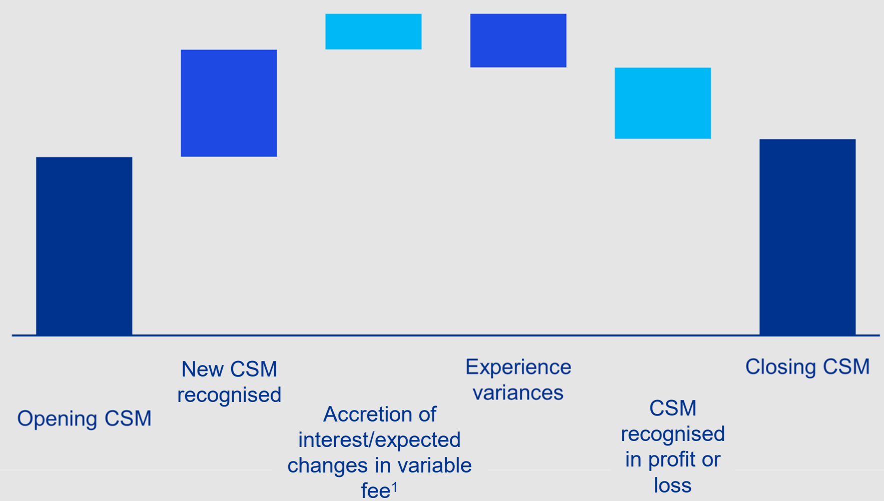
- **18** insurers used the **CSM initially recognised** in the period.
- **10** insurers continued with an **embedded value basis**, which is especially prevalent for insurers with significant sales volumes in Asia.
- **24** insurers continued reporting a **non-GAAP volume metric** – e.g. annualised premiums and sales with no adjustments for IFRS 17.

What metrics are non-life insurers using for reporting on the value of new business?

Most non-life insurers are using or expecting to use the same basis as under IFRS 4 to report written premium growth.

Some insurers in the Americas have provided the concept of 'organic CSM movement'. This excludes impacts of movements in interest rates and actual asset returns[1], changes in assumptions and currency impacts.

Example of organic CSM movement of L&H insurers[2]



[1] If returns are as expected, they are included in organic CSM. If they differ from expected, they are classified as 'inorganic'.

[2] Certain movements can be positive or negative. The chart is provided for indicative purposes only.

Key performance indicators – Profitability metrics

Profitability metric calculations are typically updated to reflect an IFRS 17/IFRS 9 basis

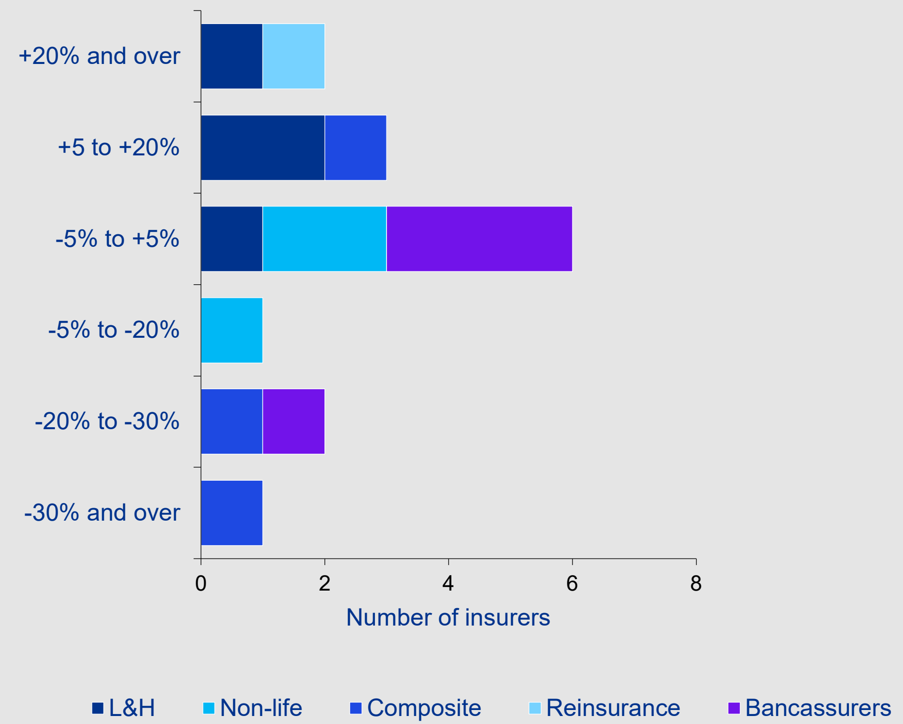
All insurers

Profitability metrics are typically based on profit calculated under IFRS Accounting Standards. Therefore, these KPIs will be based on the insurance service result and net financial result under IFRS 17 and IFRS 9.

What KPIs were reported and what's the impact?

- **Return on equity (ROE)** – typically higher under IFRS 17 and IFRS 9 compared to IFRS 4 and IAS 39 *Financial Instruments: Recognition and Measurement,* driven by decreased equity. Many insurers are adjusting their targets.
- **Earnings per share (EPS)** – the impact varies. From a population of 14 insurers which disclosed the FY22 EPS on an IFRS 17 basis, we noted that half showed increases and the other half showed decreases.
- **Operating profit after tax (OPAT)** – calculation of OPAT (or similar metrics) differs between insurers. Insurers have so far reported little to no impact on OPAT calculations.

Relative change in 15 insurers' FY22 ROE from applying IFRS 17 and IFRS 9 compared to IFRS 4 and IAS 39



Key performance indicators – Profitability metrics (cont.)

Non-life insurers have updated their profitability ratios to reflect new IFRS 17 line items for insurance revenue and insurance service expenses

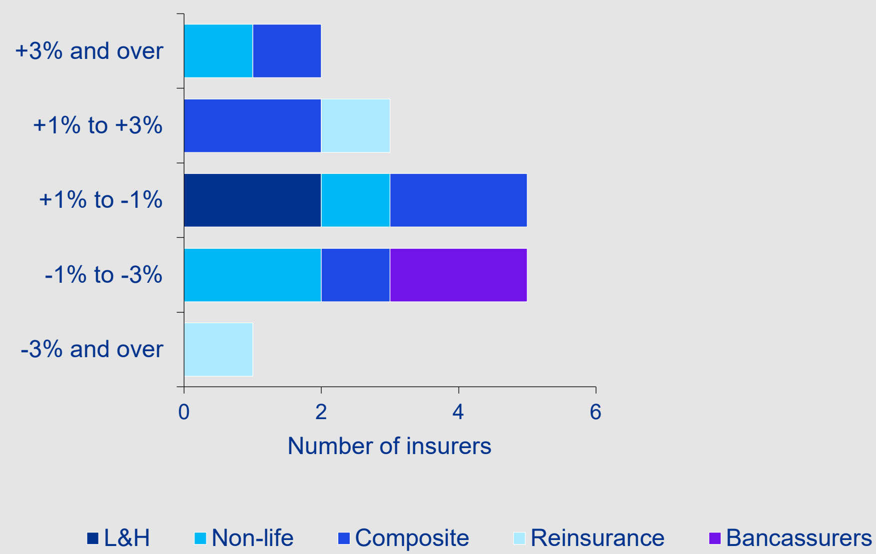
Non-life insurers

- Ratios, including claims, loss and combined ratios, are typically based on insurance revenue rather than earned premiums.
- However, there are some exceptions to this, with some insurers still referring to earned premiums.

What KPIs were reported and what's the impact?

- **Combined ratio** – The impact differs between insurers in our sample depending on their choice of calculation methodology as follows.
  - If the ratio is based on directly attributable expenses (rather than total expenses), then typically we note that the ratio is lower under IFRS 17 because the insurers generally include fewer expenses compared to IFRS 4.
  - If the ratio includes the impact of discounting insurance liabilities then this led to lower insurance service expenses and lower combined ratios. Some insurers have also provided an undiscounted combined ratio.
  - Including losses on onerous contracts in insurance service expenses and excluding investment components in insurance revenue has resulted in an increase of the ratio for some insurers.

Relative change in 16 insurers' FY22 combined ratios from applying IFRS 17



Key performance indicators – Value metrics

Some insurers have started reporting a new metric based on shareholders' equity and the net CSM to provide an indication of the total value of the insurance business

The table below provides a high-level overview of value metrics typically used by insurers.

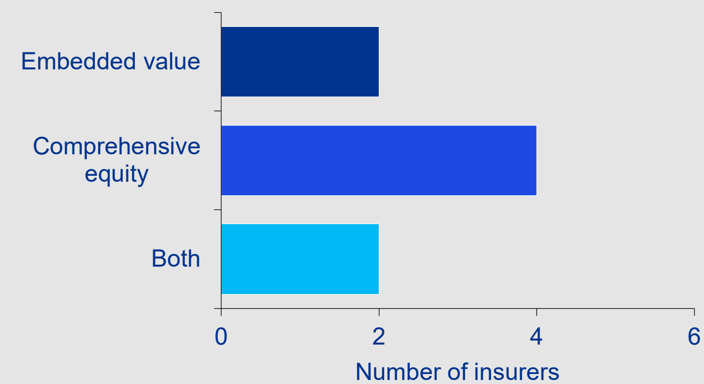
Measure	Focus	Basis
Existing: Embedded Value (EV) Still common in ASPAC and the Americas	Insurers' value	Different approaches exist as follows. • Based on local regulatory requirements and allowing for discretion in assumptions (European EV). • Market-consistent assumptions; more risk-adjusted valuation (market-consistent EV). • Incorporating Solvency II framework; more comprehensive and risk-sensitive.
Existing: Solvency II Eligible Own Funds Common in EU	Financial resources for solvency	The excess of the market value of assets over the market value of liabilities from the Solvency II balance sheet.
New: Comprehensive equity (IFRS 17) or similar metric (e.g. adjusted book value)	Insurers' value	Shareholders' equity under IFRS Accounting Standards plus unearned future profit recognised as CSM under IFRS 17 after tax.

Some insurers in our sample have started reporting the aggregate of shareholders' equity and the CSM net of tax (and sometimes non-controlling interests), sometimes referred to as 'comprehensive equity', to indicate the value of the insurance business.

15 insurers have indicated they will report book value, equity or net asset value per share; generally calculated as shareholders' equity/number of shares outstanding at the end of the period.

We provide below the number of insurers that have provided embedded value and 'comprehensive equity' metrics.

Value measure reported in Q1 2023[1]



1 Some insurers use elements of embedded value for other metrics, such as the value of new business. This diagram shows only embedded value as a total value metric.

Key performance indicators – Life and Health metrics

New performance metrics may develop in the industry to analyse insurers' results in more detail

IFRS 17 unlocks deeper insights into an insurer's growth and profit dynamics. While KPIs are still developing, these indicators may provide valuable quantitative measures to assess business growth and analyse profit drivers.

Growth analysis

The CSM represents unearned profit on insurance contracts. Some insurers provide users with new insights into their business as follows.

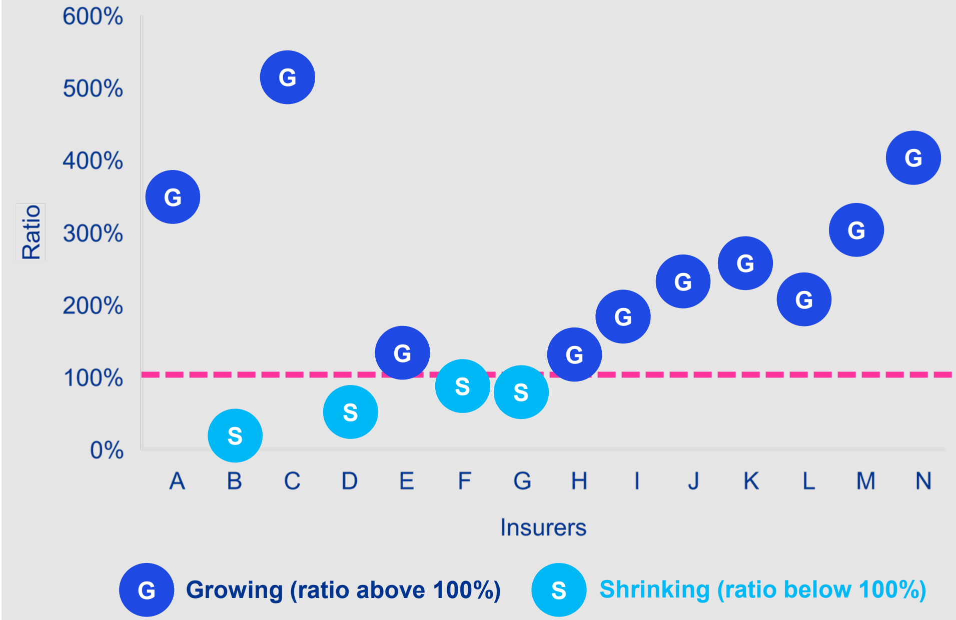
- Analysing the CSM movement helps to understand the growth of an insurer's business over a specific period.
- Comparing the CSM recognised related to new contracts issued in the period with the CSM released during that period provides insights into the release of unearned profit and the growth trajectory of an insurer's business. The diagram shows an example for 14 insurers.

Profitability analysis

Analysing the risk adjustment for non-financial risk (RA) release together with the CSM release provides valuable insights into the key drivers of an insurer's profitability as follows.

- Comparing the RA release with the CSM release during a period illustrates how each factor contributes to changes in profitability.
- It also helps highlight the impact of each on overall financial performance.

New CSM recognised/CSM release in Q1 2023[1]



1 The diagram is included for indicative purposes and shows how 14 insurers could be compared in terms of the new CSM recognised from insurance contracts in the reporting period vs the CSM released in the period for insurance contracts services provided.

What's next?

As part of our real-time IFRS 17 series, we plan to share our analysis of insurers' reporting as they implement IFRS 17 and beyond.

2022 and before

Investor education sessions and targeted updates on IFRS 17 and IFRS 9

2022 full-year

Full-year 2022 financial statements with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosures on IFRS 17 and IFRS 9

Q1 2023

First reporting based on IFRS 17 and IFRS 9 for specific companies

Coming next: H1 2023

First half-year reporting based on IFRS 17 and IFRS 9 – more companies will be required to report under the new accounting standards

2023 full-year

First full-year financial statements based on IFRS 17 and IFRS 9

2024–2026

Many jurisdictions have delayed the implementation of IFRS 17 and IFRS 9 locally and will be implementing the new accounting standards after 2023

IASB post-implementation (PIR) review

The International Accounting Standards Board (IASB) will perform a PIR of IFRS 17

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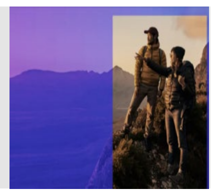
Whether you are new to IFRS Accounting Standards or a current user, you can find digestible summaries of recent developments, detailed guidance on complex requirements and practical tools such as illustrative disclosures and checklists.

Guide to annual financial statements – Illustrative disclosures for insurers: IFRS 17 and IFRS 9

Acquiring insurance contracts – Transfer of insurance contracts and business combinations under IFRS 17 and IFRS 3

Insurers – Reporting now and into 2023: IFRS 17 and IFRS 9 – Seven-step action plan to help you prepare



Interim reporting choices under IFRS 17

IFRS 9 for insurers – Are you good to go? Application guidance

First Impressions – Insurance contracts 2020 edition: IFRS 17

Appendices

Appendix A – Company selection

Company	Segment	Domicile
Absa Group Limited	Bancassurance	Africa
Achmea	Composite	Europe
Admiral Group	Non-life	Europe
Ageas	Composite	Europe
Aegon	Composite	Europe
AIA Group Limited	Life and Health	ASPAC
Allianz	Composite	Europe
ASR Nederland	Composite	Europe
Assicurazioni Generali	Composite	Europe
Aviva	Composite	Europe
AXA	Composite	Europe
Baloise Holding	Composite	Europe
Banco Bradesco[1]	Bancassurance	Americas
BNP Paribas	Bancassurance	Europe
CaixaBank	Bancassurance	Europe
Grupo Catalana Occidente	Non-life (Credit)	Europe
China Life Insurance (Group)	Life and Health	ASPAC
China Reinsurance (Group) Corporation	Reinsurance	ASPAC
CNP Assurances	Life and Health	Europe
Coface	Non-life (Credit)	Europe
Credit Agricole	Bancassurance	Europe
DB Insurance	Non-life	ASPAC
Desjardins Group[1]	Bancassurance	Americas
Direct Line Insurance Group	Non-life	Europe
Deutsche Zentral-Genossenschaftsbank (DZ Bank)	Bancassurance	Europe
Fairfax Financial Holdings Limited[1]	Non-life	Americas
Gjensidige Forsikring[1]	Composite	Europe

Company	Segment	Domicile
Great Eastern	Composite	Americas
Great West Life[1]	Life and Health	Americas
Hannover Ruck (Hannover Re)	Reinsurance	Europe
Hanwha Life Insurance	Life and Health	ASPAC
Helia	Non-life (Credit)	ASPAC
Helvetia Group	Composite	Europe
Hiscox	Non-life	Americas
HSBC	Bancassurance	Europe
Hyundai Marine & Fire Insurance	Non-life	ASPAC
iA Financial Corporation[1]	Composite	Americas
Intact Financial[1]	Non-life	Americas
Intesa Sanpaolo	Bancassurance	Europe
KBC Group[1]	Bancassurance	Europe
Kyobo Life Insurance	Life	ASPAC
Lancashire	Non-life	Americas
Lloyds Banking Group	Bancassurance	Europe
Legal and General	Life and Health	Europe
M&G	Life and Health	Europe
Manulife Financial[1]	Life and Health	Americas
Mapfre	Composite	Europe
Münchener Rückversicherungs-Gesellschaft (Munich Re)	Reinsurance	Europe
NN Group	Composite	Europe
The People's Insurance Company (Group) of China	Composite	ASPAC
Phoenix Group	Life and Health	Europe
Ping An Insurance (Group) Company of China	Composite	ASPAC
Prudential	Life and Health	Europe

Appendix A – Company selection (cont'd)

Company	Segment	Domicile
QBE Insurance Group	Composite	ASPAC
Sampo	Composite	Europe
Samsung Fire & Marine Insurance	Non-life	ASPAC
Samsung Life Insurance Co	Life and Health	ASPAC
Sanlam Limited	Composite	Africa
SCOR	Reinsurance	Europe
Storebrand[1]	Life and Health	Europe
SunLife Financial[1]	Life and Health	Americas
Talanx	Composite	Europe
Tryg[1]	Non-life	Europe
Unipol Gruppo	Composite	Europe
Uniqa Insurance Group	Composite	Europe
Wiener Städtische Wechselseitiger Versicherungsverein (Vienna Insurance Group)	Composite	Europe
Wüstenrot & Württembergische (W&W)	Bancassurance	Europe
Zurich Insurance Group	Composite	Europe

Notes

- Discovery, OUTsurance, Insurance Australia Group and Suncorp have a financial year ending on 30 June. Therefore, the first application of IFRS 17 and IFRS 9 will be the financial year starting 1 July 2023 and they are not included in the companies listed. Where relevant and provided, we have incorporated information from these insurers from investor education sessions and the most recent interim financial statements as at 31 December 2022 (e.g. some have provided information on whether the other comprehensive income (OCI) option is expected to be used). We have not included them in the summarised results where no information was provided. For other companies, financial statements were not always available at our cut-off date of 9 June 2023 and we have taken a similar approach.
- Some companies have a range of activities within their group. Some L&H, non-life and composite insurers may have segments that also issue reinsurance contracts. These insurers have not been allocated to the reinsurance segment.
- Some companies identify as financial conglomerates with not only banking and insurance activities, but also asset management, technology and other activities. We have generally classified these companies as 'bancassurance'.

[1] The interim financial statements for the three months ended 31 March 2023 that were prepared in compliance with IAS 34 of these insurers were used in our analysis on 'First IAS 34 interim reports'.

Appendix B – Updated summary of accounting policies and significant judgements

This slide builds on our previous benchmarking analysis using new transition documents and Q1 reporting to provide the latest status of insurers' IFRS 17 and IFRS 9 accounting policies and significant judgements

Detail of accounting policies and judgement disclosures varied

Most non-life contracts eligible for PAA

15 insurers

have applied the EU exemption for annual cohorts

26 insurers

reported detailed disclosures on coverage units for the release of the CSM

55 insurers reported on opening equity impact

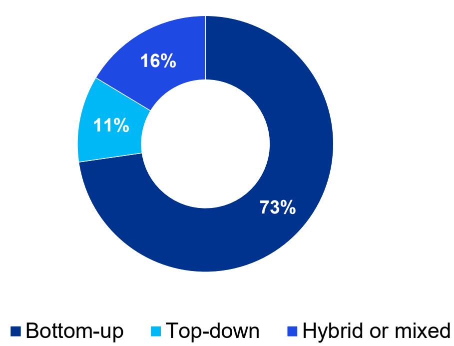
52% of insurers

are applying the OCI option for insurance liabilities. Countries or regions appear to have a strong preference for using the OCI option or not.

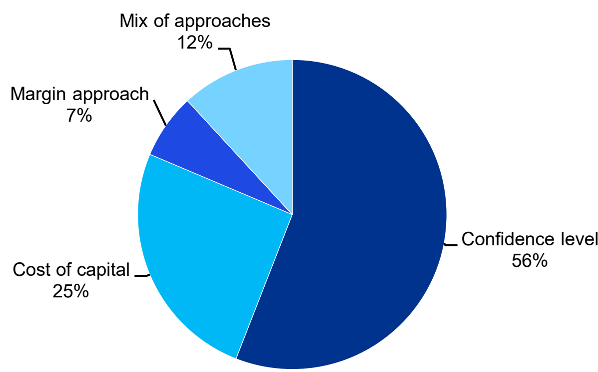
35% of insurers

expect to measure the majority of investments in equity instruments at FVOCI

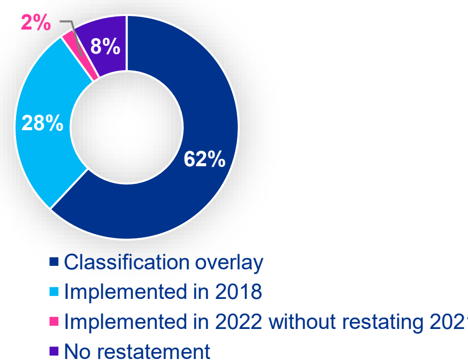
Discount rate methodology



Risk adjustment methodology



IFRS 9 classification overlay popular

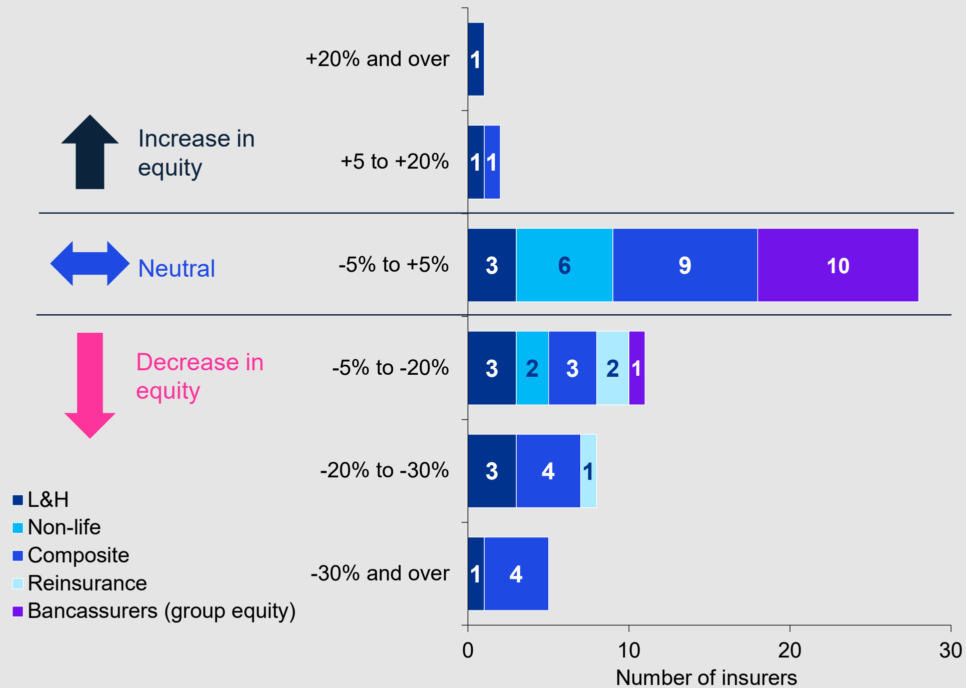


Appendix C – Updated impact disclosures on transition to IFRS 17 and IFRS 9 – Equity

Opening equity will be significantly impacted by IFRS 17 and IFRS 9 for L&H business, while the impact on equity for non-life business will be lower

- Compared to our last report in April, 11 insurers have provided new information for the quantitative impact on opening equity as at 1 January 2022 taking our total to 55. 7 insurers have provided a point estimate impact in first-quarter interim and related reports for a previously reported expected range of outcomes (i.e. more refined information has been provided).
- Most confirmed that impacts of transition were in line with what was disclosed previously – e.g. in their 2022 annual reports and investor education sessions.
- Disclosures on the impacts of transition varied but many insurers included information in multiple locations – e.g. IAS 34 interim report, quarterly trading update, 2022 annual financial statements and transition documents.
- Six insurers included a CSM roll-forward split by transition approach in their first IAS 34 interim report.
- Seven insurers provided a reconciliation between the IFRS 4/IAS 39 balance sheet and the IFRS 17/IFRS 9 balance sheet as at 1 January 2022 in their first IAS 34 interim report.
- In total, 15 insurers have indicated how much of their CSM at the transition date is determined under each of the transition approaches (in either their first IAS 34 interim report or information provided before that date). Similar to our April report, there is significant variation in the transition approaches applied.

55 insurers disclosed how they expect opening equity[1] to be impacted



1 Where possible, we have included the impact on total shareholders' equity, including accumulated OCI. The impact includes changes in policies from consequential amendments to other accounting standards.

Appendix C – Updated impact disclosures on transition to IFRS 17 and IFRS 9 – Net profit

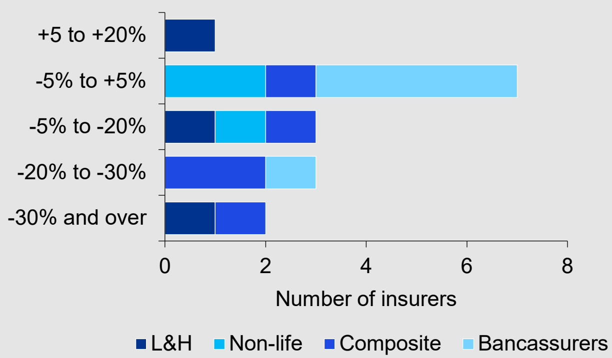
Insurers' Q1 2023 reporting shows a wide-ranging impact on net profit and total comprehensive income from the adoption of IFRS 9 and IFRS 17.

The income statement under IFRS 17 separately identifies **insurance service results** and **financial results** and brings more consistency in presentation. The impact on **future profitability** depends on the nature of business – i.e. differing impacts arise for L&H insurers vs non-life insurers; however, many insurers have reported that IFRS 17 will not impact their earning potential.

Some insurers provided restated Q1 2022 information only, while others have provided full-year 2022 restated information.

The diagram shows that the impact of IFRS 9 and IFRS 17 on full-year 2022 net profit has not been consistent for 16 insurers, even amongst the same segments.

Impact of IFRS 17 and IFRS 9 on 16 insurers' FY22 net profit



The explanations provided for the changes in net profit from the impact of IFRS 17 and IFRS 9 vary in detail between insurers. However, the key drivers appear to be:

- the effect of discounting of insurance liabilities, which has been amplified in the current high-interest rate environment. Notably, this has an impact on non-life insurers as well, especially if they have longer-term liabilities;
- the introduction of the CSM, which for many products will result in delayed profit recognition, although future profitability may be more predictable; and
- the reclassification of financial assets on the initial application of IFRS 17 from fair value through profit or loss to fair value through OCI or vice versa. This includes the accounting policy choice to recognise changes in the fair value of equity instruments either in profit or loss or in OCI.

We have also observed that applying IFRS 17 and IFRS 9 has resulted in significant changes in the total comprehensive income reported for Q1 2022, both positive and negative. The key drivers appear to be the inclusion of insurance finance income and expense in OCI, and the reclassification of financial assets on the initial application of IFRS 17 from amortised cost to fair value through OCI.

kpmg.com/ifrs

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