KPMG

Insurers' first annual reporting under IFRS 17 and IFRS 9

Real-time IFRS 17

—

April 2024

What did we look at?

We have analysed **57** insurers' reports, including the first:

- annual reports of **53 insurers** prepared under IFRS 17 *Insurance Contracts* and with an aggregate market capitalisation of EUR 1.5 trillion; and
- half-year reports of **4 insurers** with 30 June 2024 year ends.

Our analysis focused on the following.

Accounting policies and disclosures

We share our key observations on the insurers' IFRS 17 and IFRS 9 *Financial Instruments* accounting policies, significant judgements and disclosures, including a deep dive into:

- measurement model criteria;
- discount rates;
- coverage units; and
- confidence level and risk adjustment for non-financial risk (RA).

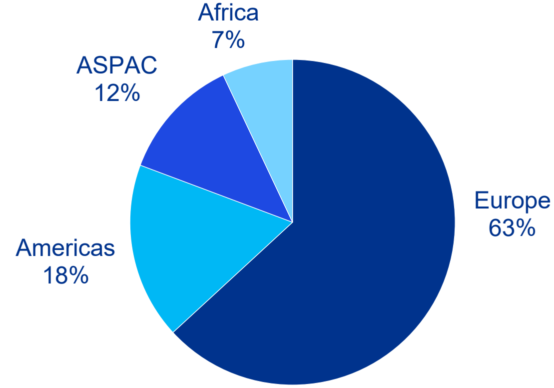
Key performance indicators (KPIs)

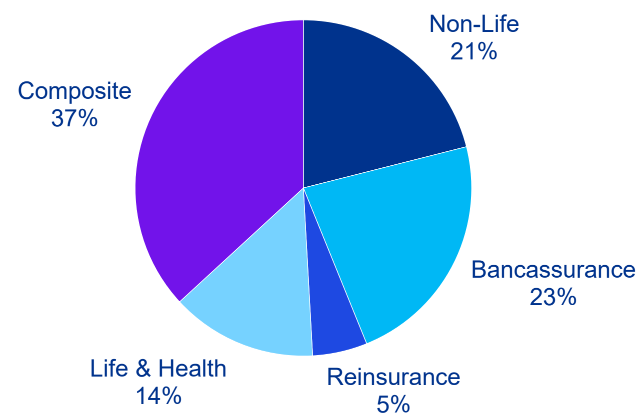
We also share our key observations on the KPIs reported by the 57 insurers.

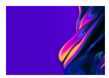
Transition to IFRS 17 and IFRS 9

We also provide an update to our previous analysis on the impact to opening equity and net profit from the adoption of IFRS 17 and IFRS 9.

Domicile and segments of the insurers sampled
(By number of insurers)







For more information, visit and bookmark our Real-time IFRS 17 page

Executive summary

Our key observations

Our observations in this report* are based on our understanding and interpretation of what insurers have disclosed in their reports so far.

Accounting policies, disclosures and significant judgements

- Generally, **more insurers are providing company-specific accounting policies** and more detail of their methodologies compared with their half-year reports.
- The **level of detail and specificity they provided on IFRS 17 accounting policies and significant judgements varied significantly** – e.g. on the methodologies used to determine discount rates, how coverage units to recognise the contractual service margin (CSM) in profit or loss are determined and judgements made in selecting measurement models.
- Under IFRS 17, **insurers are applying standardised accounting principles** and a common set of benchmarks in the new disclosures. This allows greater comparability between their disclosures but some differences remain. However, we expect greater clarity in disclosures as preparers and users gain a deeper understanding of IFRS 17's requirements.

Key performance indicators

- **Insurers across all sectors are incorporating IFRS 17 and IFRS 9** into their KPIs.
- Many **Life & Health (L&H) insurers have integrated the CSM into their KPIs**, including metrics for new business, profitability and company value.
- **Non-life insurers have largely continued with existing KPIs** but have incorporated some IFRS 17 elements – e.g. insurance revenue and redefined combined ratios.

Transition to IFRS 17 and IFRS 9

- Insurers reported a **reduction in accounting mismatches and in income statement volatility** after adopting IFRS 9 and IFRS 17. This reflects the consistent measurement of insurance liabilities and related financial assets.

* We expect further information to become available in future periods, which will enable us to provide more insightful analysis and comparisons.

See our summary observations

Summary findings – Accounting policies and significant judgements

Our summary of insurers' IFRS 17 and IFRS 9 accounting policies and significant judgements

Detail of accounting policies and judgement disclosures varied

11 of 26 insurers
applied the EU exemption for annual cohorts

56% of insurers
applied the OCI† option for insurance liabilities, which varies by region e.g. insurers in Europe tend to apply the OCI option

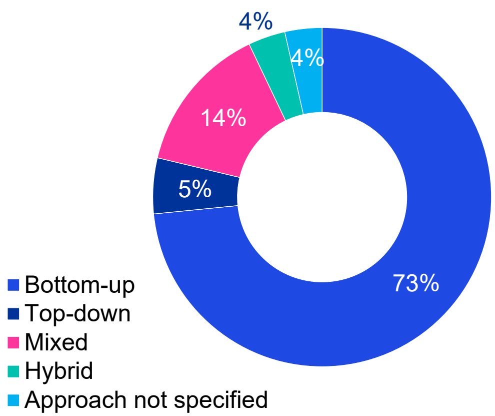
Most non-life contracts eligible for premium allocation approach (PAA)

19 of 50 insurers
applied the option to expense insurance acquisition cashflows when incurred

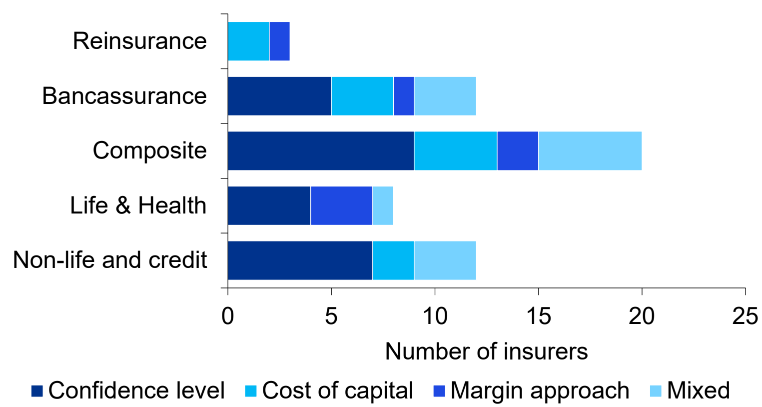
39% of insurers
measured the majority of investments in equity instruments at fair value through OCI

† Other comprehensive income

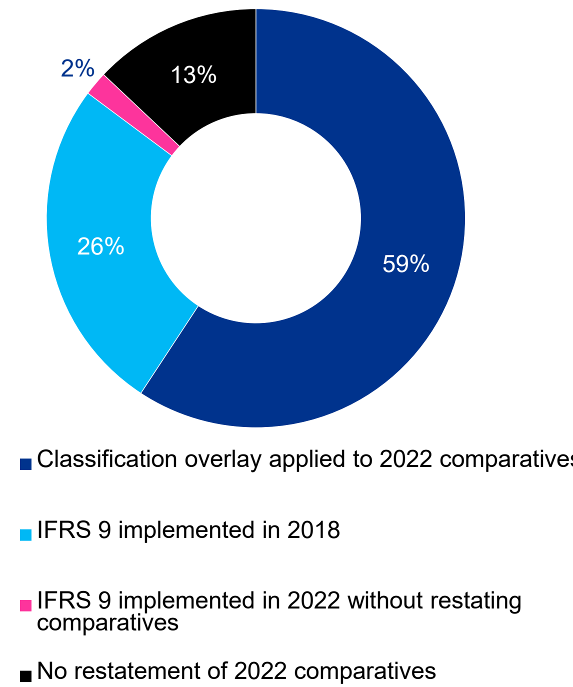
Discount rate methodology



Risk adjustment methodology



IFRS 9 classification overlay popular



Summary findings – KPIs

Our high-level observations on insurers' KPIs

L&H insurers

- Incorporating the **CSM** into their new business metrics
- These include:
  - **CSM** initially recognised in the period; and
  - **comprehensive equity** – i.e. shareholders' equity plus CSM

New metrics may develop

- New data under IFRS 17 could unlock deeper insights into an insurer's growth and profit dynamics

Profitability metrics

- Insurers across all sectors are **incorporating IFRS 17 and IFRS 9 in their profitability metrics**
- Metrics include **return on equity**, **operating profit** and **earnings per share**
- Wide-ranging impacts reported on 2022 metrics

Non-life insurers

- Continue to **use the same new business metrics** – e.g. gross written premiums
- Other metrics (e.g. the **combined ratio**) incorporate IFRS 17 line items, including insurance revenue and insurance service expenses

Summary findings – Transition to IFRS 17 and IFRS 9

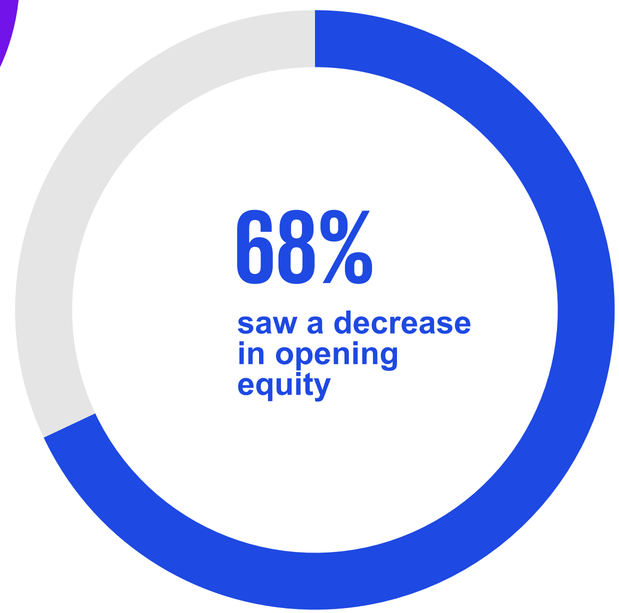
Our high-level observations on insurers' disclosures about transition to IFRS 17 and IFRS 9

Impact on 2022 profit or loss

Insurers' reporting shows a wide-ranging impact from adopting IFRS 17 and IFRS 9 on the 2022 net profit or loss compared with the amounts reported under IFRS 4 *Insurance Contracts* and IAS 39 *Financial Instruments: Recognition and Measurement*.

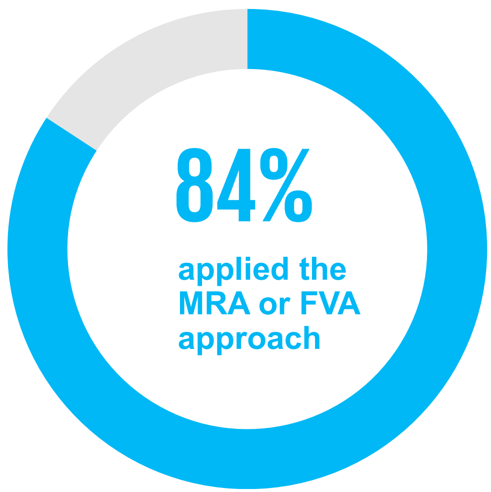
Impact on opening equity

Transition to IFRS 17 and IFRS 9 significantly impacted life insurers' opening equity; the impact for non-life insurers was less significant.



Transition methodology

Most insurers applied the modified retrospective approach (MRA) or fair value approach (FVA) to at least some of their groups of insurance contracts.



Accounting policies and disclosures

Measurement model criteria and related accounting policies

Insurers provided little specific detail about PAA eligibility criteria or qualification for the VFA

Premium allocation approach

Insurers can automatically apply this approach when contracts have a coverage period of 12 months or less. When the coverage period exceeds 12 months, they can apply the PAA if the measurement of the liability for remaining coverage (LRC) is not expected to differ materially to that under the general measurement model (GMM).

Nearly all of the insurers provided no or limited information on how they assessed whether contracts with a coverage period greater than 12 months were eligible for the PAA. This is despite some insurers listing PAA eligibility as a critical judgement.

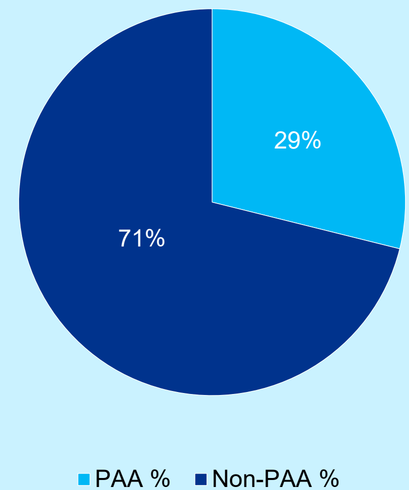
19 of the 50 insurers applying the PAA chose to expense insurance acquisition cash flows when they are incurred for at least some groups of contracts.

Variable fee approach (VFA)

Under IFRS 17, insurers apply the VFA when specific criteria are met, including that the policyholder will receive a substantial share of the fair value returns of underlying items. Similar to the PAA eligibility criteria, most insurers provided little detail on their VFA qualification assessment. **4** insurers stated that they interpret a substantial share to mean greater than 50%; another insurer deemed participation of 80% or more as equivalent to a substantial share.

17 of the 38 insurers applying the VFA stated that they chose to apply the risk mitigation approach. **30** insurers in our population are classified as L&H or composite; **24** of these applied the VFA.

Insurance contract liabilities by measurement model for non-life, composite and reinsurers[1]



[1] Calculated by dividing the total insurance contract liabilities for each measurement model for insurers classified as non-life or reinsurance by the total insurance contract liabilities for all measurement models for the same insurers. Contracts measured under the GMM and VFA are grouped together as 'non-PAA'.

Discount rate – Accounting policies and significant judgements

Observations on the discount rate methodology as disclosed by insurers

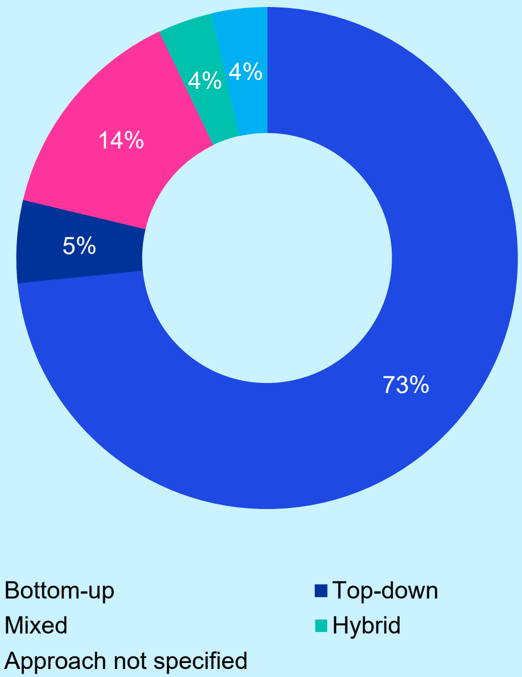
When determining the discount rate, IFRS 17 allows a choice between the bottom-up and top-down approach.

Most insurers disclosed using a bottom-up approach. Some insurers applied different approaches for different products (a 'mixed' approach). **2** insurers disclosed that they used elements of both approaches (a 'hybrid' approach) when determining the discount rates. **2** insurers disclosed their methodology but it is unclear if they have applied a bottom-up or top-down approach ('approach not specified').

Our key observations on discount rate methodology as reported by insurers include the following.

- Using swap rates was a popular method for determining the risk-free rate under the **bottom-up approach**.
- The methodology for determining **illiquidity premiums** (ILPs) varied. **10** insurers reported determining the level of the ILP as constant over time; **6** reported determining the ILPs as a term structure (i.e. varying ILPs at different tenors). Several insurers reported that they will reassess the ILPs on a quarterly or annual basis.
- Most insurers omitted to disclose the last liquid point for which they used **observable market data**. Those that did typically used 30 years as the last liquid point for the EUR and USD.
- Smith-Wilson was a popular method for **interpolating** and **extrapolating** discount rates to the ultimate forward rate, based on those insurers that disclosed a methodology.
- The **ultimate forward rate** was generally based on long-term interest and inflation rates or leverage from a regulatory framework.
- Several insurers reported using the assets related to the portfolio of insurance contracts as the reference portfolio when determining the discount rate under the **top-down approach**.

Discount rate methodology as disclosed by insurers



Disclosures – EUR discount rates

Highest and lowest yield curves used in discounting differ significantly

49 insurers disclosed the discount rates (or the range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items.

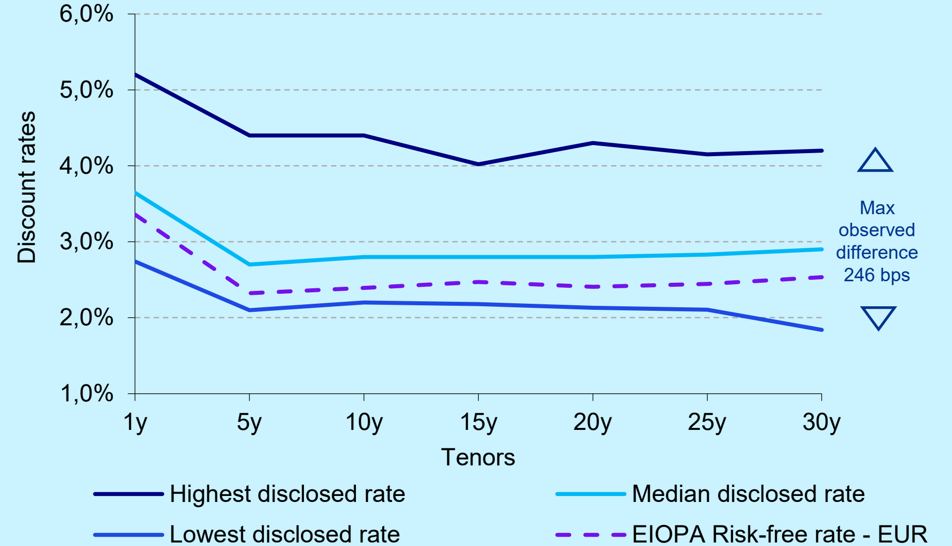
33 insurers disclosed one or more EUR yield curves.

The diagram† shows that the highest and lowest observed rate in the EUR yield curves disclosed by the **33** insurers differed by **246** basis points (bps) for the one-year rate.

4 insurers disclosed an **EUR ultimate forward rate** varying between 3.15% and 3.45%.

† Presented here for illustrative purposes only.

EUR discount rates disclosed at 31 December 2023[1,2,3]



1 Some insurers disclosed multiple yield curves for different countries or products. For the 33 insurers that disclosed a EUR yield curve, we observed 64 different yield curves.

2 The yield curves shown reflect the highest/median/lowest rates we observed for each tenor and not those for a specific insurer. We interpolated any missing data through a simple average of the two nearest data points. The highest/median/lowest observations for 25y are based on this interpolated calculation.

3 The EIOPA risk-free rate for the Eurozone was used as a reference rate. This rate is shown for illustrative purposes only.

Disclosures – USD discount rates

Highest and lowest yield curves used in discounting differ significantly

24 insurers disclosed one or more USD yield curves.

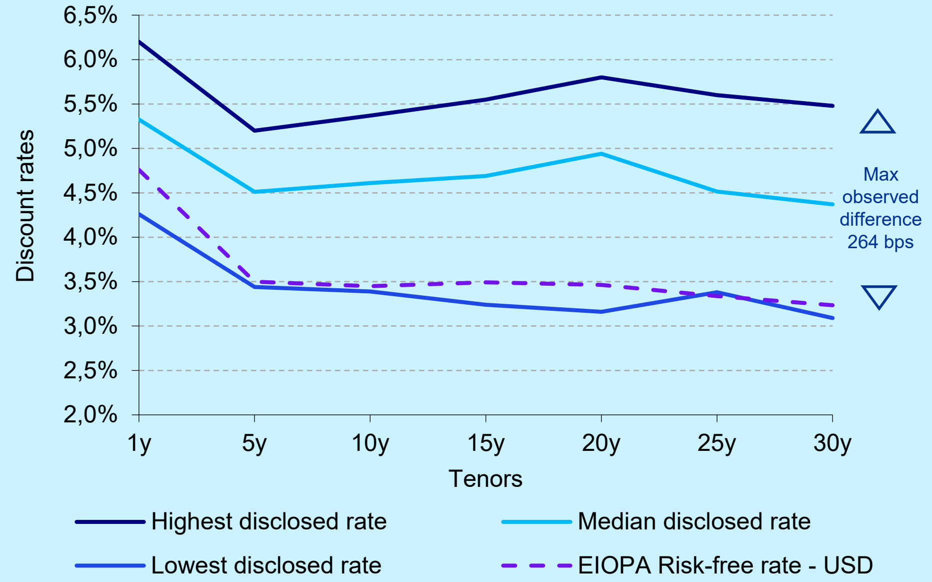
The diagram† shows that the highest and lowest observed rate in USD yield curves disclosed by the **24** insurers differed by **264** bps for the 20-year rate.

Insurers in the Americas and ASPAC generally disclosed higher discount rates than those disclosed by insurers in Europe.

4 insurers disclosed a **USD ultimate forward rate** which varied between 3.45% and 5.15%.

† Presented here for illustrative purposes only

USD discount rates disclosed at 31 December 2023[1,2,3]



1 Some insurers disclosed multiple yield curves for different countries or products. For the 24 insurers that disclosed a USD yield curve, we observed 44 different yield curves.

2 The yield curves shown reflect the highest/median/lowest rates we observed for each tenor and not those for a specific insurer. We interpolated any missing data through a simple average of the two nearest data points. The highest/median/lowest observations for 15y and 25y are based on this interpolated calculation.

3 The EIOPA risk-free rate for the United States was used as a reference rate. This rate is shown for illustrative purposes only.

Determining coverage units

Insurers provided varying levels of detail on determining coverage units

Each reporting period, insurers release part of the CSM to reflect the services provided in that period to the policyholders of a group of insurance contracts. They determine this amount by:

- identifying the coverage units in the group of contracts;
- allocating the CSM at the reporting date (before recognising any release to profit or loss to reflect the insurance contract services provided) equally to those coverage units it has provided in the current period and those it expects to provide in the future; and
- recognising in profit or loss the amount allocated to coverage units to reflect insurance contract services provided in the period.

Determining coverage units requires significant judgement.

Insurers provided disclosures on determining coverage units in varying levels of detail. **37** insurers provided specific information on how they determined coverage units, which is an increase from our half-year analysis – e.g. which coverage units they have used for a certain product. **13** insurers provided only boilerplate information.

Weighting used to determine coverage units

IFRS 17 requires disclosure of the relative weighting used in determining coverage units for insurance contracts that provide both insurance coverage and investment services. The weighting used needs to reflect the insurance and investment services an insurer provides.

Common approaches reported for FY23 include weighting according to:

- the expected present value of future cash flows for each service; and
- the quantity of benefits for each service and the expected duration.

The table below summarises the most common coverage unit determined by insurers for each product, based on their FY23 reporting.

	Coverage unit
Immediate annuity	Annual payment
Deferred annuity	Transfer amount during deferral phase and annual payment during payment phase
Term life and other contracts where the benefit is a single lump sum payment	Sum assured
Non-life	Expected or earned premiums
Reinsurance contracts held	Reflects underlying contracts' benefits
Unit-linked and other contracts with investment related services	Account value

Disclosures – Expected CSM release

New disclosure demonstrates differences in expected profit recognition profiles

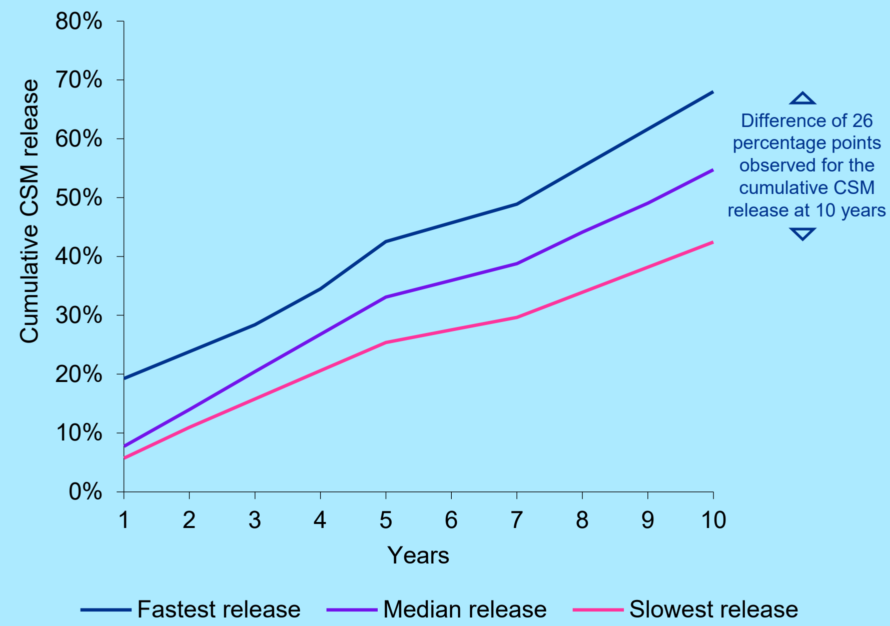
Insurers applying the general measurement model (GMM) or variable fee approach (VFA) are required to disclose the **amounts of CSM they expect to recognise in profit or loss across future years.** Insurers' disclosures differed in the time bands disclosed, as follows.

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

4 insurers included future expected interest accretion in the CSM release disclosure, meaning that the total expected CSM release is not equal to the CSM amount included in the balance sheet.

In the diagram, we have normalised the time bands to illustrate the insurers' highest, lowest and median expected CSM recognition for the first 10 years. Note that each line does not represent an individual insurer; it represents the highest/lowest/median expected release for the specific year.

Expected recognition of CSM in profit or loss as at 31 December 2023[1]



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

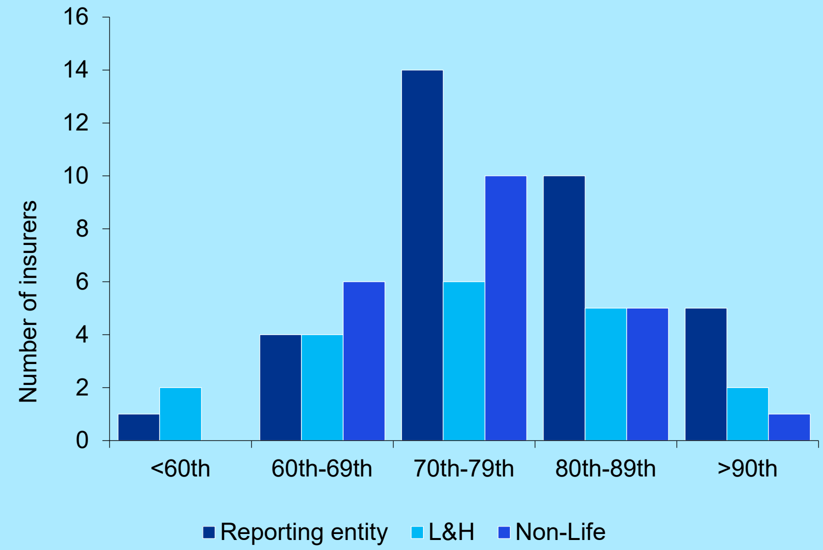
Risk adjustment policies and confidence levels

Insurers have reported a wide range of different confidence levels as well as different calculation bases

Insurers are required to disclose the confidence level used to determine the risk adjustment. This enables users to understand the differences in insurer-specific risk appetites. There are differences in how the confidence level has been disclosed as follows.

- ***Level of aggregation:* 39** insurers disclosed the confidence level for the **reporting entity**; **18** insurers disclosed the confidence level for **L&H segments** separately from that for **non-life segments**.
- ***Target or actual:* 8** insurers disclosed a **target** rather than an **actual** confidence level.
- ***Single number or range:* 40** insurers disclosed a **single number**; **18** insurers disclosed a **range**.
- ***Time horizon:***
  - **6** insurers stated that the confidence level disclosed is based only on a **1-year calibration.** This means the disclosure does not reflect the insurer's confidence in fulfilling all of its remaining obligations. **12** insurers disclosed the confidence level based on a **full time horizon**.
  - **33** insurers did not state whether the confidence level is based on a one-year or full time horizon.
  - **6** insurers disclosed confidence levels on a one-year calibration and a full time horizon. These insurers showed impacts of 5–20% lower confidence levels on a full time horizon basis compared with the one-year view.
- ***Reinsurance:* 15** insurers stated that the confidence level disclosed is **after reinsurance**; **8** insurers before reinsurance; and the remaining **34** insurers did not specify.

Number of insurers by disclosed confidence level[1,2]



[1] The information above shows the middle of the range disclosed if an insurer disclosed a range instead of a point estimate.

[2] The information above shows the confidence level disclosed for L&H and non-life segments, if that information was provided.

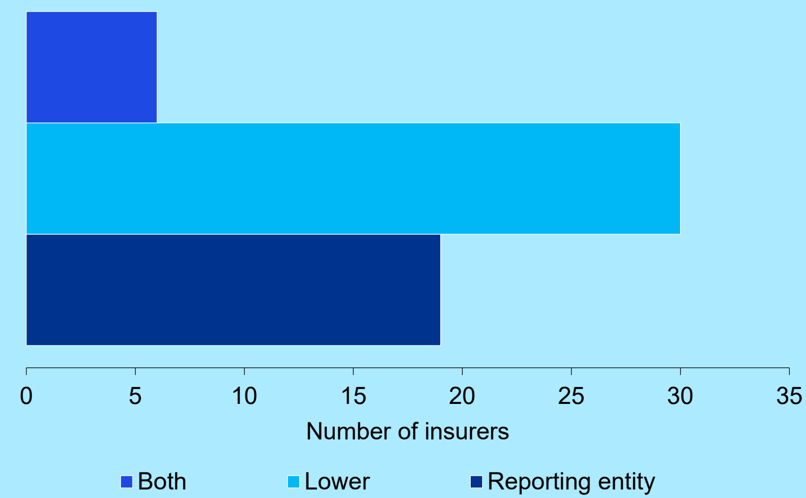
Disclosures – Other observations

Many insurers reconciled insurance contract liabilities at reporting entity level

Other observations include the following.

- Most insurers disclosed the reconciliations[1] of the insurance contract liabilities at a more disaggregated level than the reporting entity. The most common alternatives to the reporting entity level for the reconciliations were the following.
  - Segment
  - Product line
  - Geographic region
  - Measurement model
- Insurers are required to present a sensitivity analysis for insurance and market risks and disclose how changes in risk variables would impact profit or loss and equity. However, some insurers reported the impact on CSM, LRC and the liability for incurred claims (LIC).
- For the sensitivity analysis of insurance risk, the assumptions tested by insurers varied. Common assumptions tested included the following.
  - Mortality (for L&H insurers)
  - Morbidity (for L&H insurers)
  - Surrender rates
  - Expenses/costs
  - Combined ratio (for non-life insurers)

Level of aggregation of insurance contract liability reconciliations[1]



[1] The insurance contract liability reconciliations refers to the reconciliation from opening to closing balances of :
- the liability for remaining coverage and liability for incurred claims; and
- the CSM, the present value of future cash flows and the risk adjustment for non-financial risk.

Disclosures – Claims development

Claims development tables show different reconciling items

Non-life insurers

In line with IFRS 4, insurers disclose the actual claims compared with previous estimates of the undiscounted amount of the claims (i.e. claims development). The disclosure starts with the period when the earliest material claim(s) arose and for which uncertainty remains at the reporting date about the amount and timing of the claims payments. Our key observations are as follows.

- **13** insurers provided a **gross development table**; **6** provided only a **net table**; and **22** provided **both a gross and a net table**.
- The remaining **16** insurers did not disclose a claims development table. These insurers were mostly bancassurers or L&H insurers; the claims settlement period for **life insurance is typically short-term**.
- Insurers presented various **reconciling items**, as shown in the table.

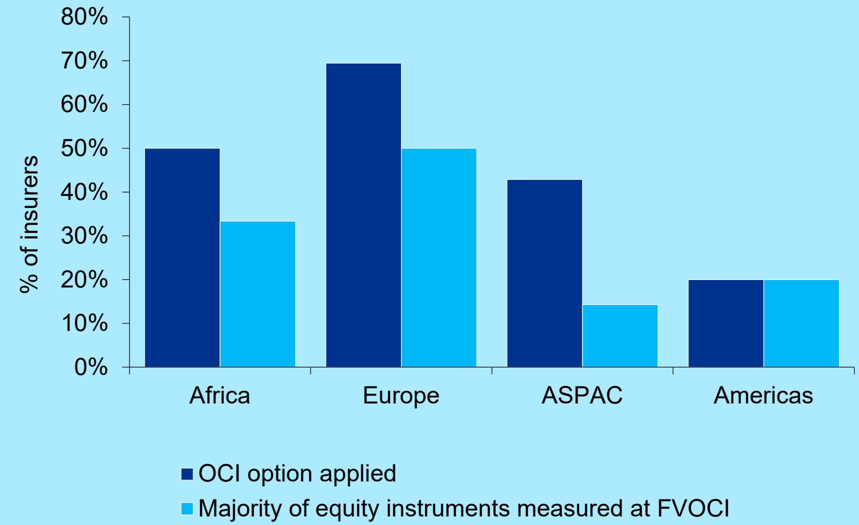
	Number of insurers making adjustment
Risk adjustment	32
Effect of discounting	39
Loss adjustment and other expenses	11

IFRS 9 – Accounting policies and disclosures

Insurers newly applying IFRS 9 reported significant reductions in accounting mismatches

- **39** insurers applied IFRS 9 for the first time on 1 January 2023. Most of these insurers applied the **classification overlay approach** to their 2022 comparatives.
- **12** insurers explicitly reported a **reduction in both accounting mismatches and volatility** in the income statement from changes in financial assumptions. Insurers reported that this is due to the following.
  - Most insurance contracts and financial assets are now measured using current financial variables, including discount rates. This reduces mismatches in both measurement and in the income statement.
  - Applying the OCI option to recognise part of the insurance finance income or expense (IFIE) in OCI instead of profit or loss.
  - Taking the opportunity to reclassify financial assets when adopting IFRS 9 and applying the classification overlay from fair value through profit or loss to fair value through OCI (FVOCI), or vice versa.
- Most insurers in our population apply **hedge accounting**. This generally relates to financial assets and liabilities and foreign currency exposures. **5** insurers have designated hedge accounting relationships in respect of interest rate and inflation risks arising from insurance contracts.
- The effect of recognising an **expected credit loss (ECL)** was not significant, with the loss allowance equivalent to **less than 1%** of the financial assets as at 1 January 2022 for those insurers who disclose that information. This reflects that the majority of insurers' investments in debt securities are investment grade.

Percentage of insurers by region that apply the OCI option to IFIE and measure equity instruments at FVOCI



Key performance indicators

New business metrics

L&H insurers' metrics include CSM; non-life insurers' metrics typically unchanged

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

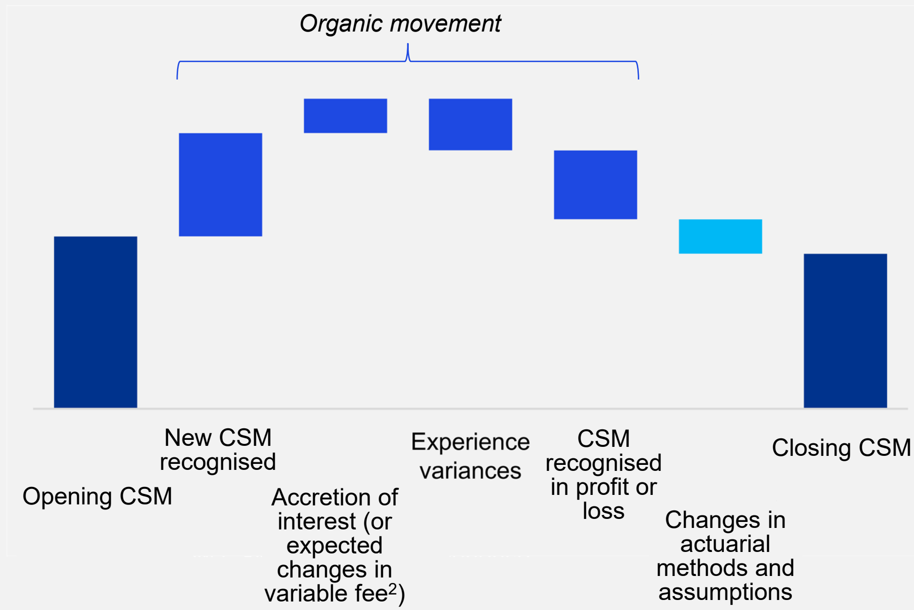
- **29** insurers used the **CSM initially recognised** in the period. Some grouped new CSM with new RA to present 'deferred profit' or make certain adjustments – e.g. adjustments for reinsurance or non-directly attributable expenses.
- **8** insurers continued with an **embedded value basis**, which is especially prevalent for insurers outside of Europe.
- **18** insurers reported value of new business or a value of new business margin.
- **31** insurers continued reporting a **non-GAAP volume metric** – e.g. annualised new premiums (ANP) and sales with no adjustments for IFRS 17.

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

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

Some insurers in the Americas have introduced the concept of 'organic CSM movement'. In other parts of the world, CSM movements are sometimes divided into recurring and non-recurring items. Recurring items are generally similar to organic CSM movement, although some exclude experience variances.

L&H insurers' organic CSM movement[1] – Example



[1] Certain movements can be positive or negative. Chart provided for illustrative purposes only.

[2] Only for VFA contracts.

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 are typically based on the insurance service result and net financial result under IFRS 17 and IFRS 9.

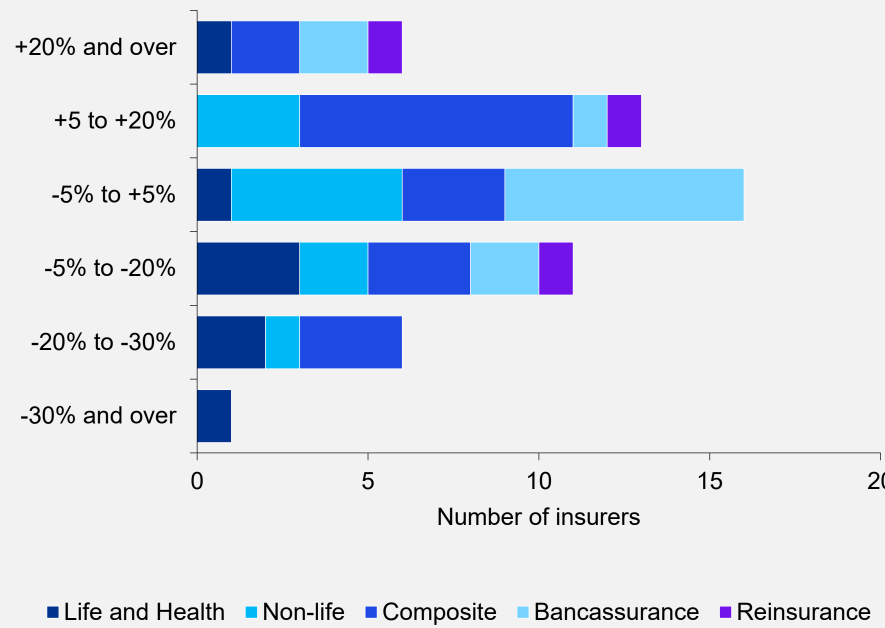
Which KPIs were reported and what's the impact from adopting IFRS 17 and IFRS 9?

- ***Return on equity (RoE):*** Typically higher under IFRS 17 and IFRS 9 compared with IFRS 4 and IAS 39, and driven by decreased equity. Some insurers have adjusted their targets upwards to reflect this trend.
- ***Earnings per share (EPS):*** The impact varies. From a population of 50 insurers that disclosed the FY22 EPS on an IFRS 17 basis, more than half showed decreases.
- ***Operating profit:*** See next page.

Some insurers reported multiple RoE numbers, which captured the base RoE calculation (profit divided by average equity) and certain variations – e.g. cash, underlying or adjusted RoE.

Comparing IFRS 17 and IFRS 9 with IFRS 4 and IAS 39

Relative change in 53 insurers' FY22 ROE



Life & Health metrics

New performance metrics may develop that analyse insurers' growth in more detail

IFRS 17 provides new data that could unlock deeper insights into an insurer's growth and profit dynamics. While KPIs are still developing, additional analysis of new IFRS 17 information, such as the CSM and risk adjustment, 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 provided users with new insights into their business, including the following.

- Analysing the CSM movement to help users understand the growth of an insurer's business over a specific period.
- Comparing the CSM recognised for new contracts issued in the period with the CSM released during that period. This provides insight into the release of unearned profit and the growth trajectory of an insurer's business.

The table analyses insurers between those whose ratio of new CSM to CSM release is:

- **greater than one** – i.e. the CSM initially recognised in a period from new contracts exceeds the amount of CSM released to profit or loss in a period; or
- **less than one** – i.e. the amount of CSM released to profit or loss in a period exceeds the CSM initially recognised in a period from new contracts.

Ratio of new CSM to CSM release by region for 43 insurers

	FY23		FY22	
	< 1	> 1	< 1	> 1
Africa	0	1	0	1
Americas	2	4	3	3
ASPAC	5	0	5	0
Europe	20	11	21	10

There are some limitations to this analysis. Insurers either:

- accrete interest on the CSM under the GMM; or
- reflect their share of underlying items in the CSM under the VFA.

This leads to an increase in the CSM balance over time, leading to larger CSM releases (all else being equal). Insurers are not required to disclose the amount of interest (or VFA equivalent) included in the CSM release in each period. Therefore, this metric should not by itself be taken to mean that an insurer's profitability is declining.

Profitability metrics (cont.)

Many insurers disclose an operating profit after tax metric but the calculation methodology varies

Operating profit after tax (OPAT) observations

- OPAT (or similar alternative performance measures such as adjusted profit) is a metric used by many insurers to provide a consistent view of earnings from period to period. IFRS 17 and IFRS 9 provide a more **economic view** compared with IFRS 4; however, insurers continue broadly to use operating profit.
- The calculation of OPAT (or similar metrics) differs significantly between insurers and may need some time for it to become more consistent between insurers.
- Many insurers' OPAT calculation began with profit after tax as determined under IFRS Accounting Standards ('net profit') but was then adjusted differently as shown in the table. Others started with revenue as determined under IFRS Accounting Standards and deducted amounts to get to a net earnings metric. The remaining insurers disclosed an OPAT metric determined on a basis that does not appear to reconcile to 'net profit' and may be calculated on an entirely different basis.
- One insurer adjusted 'net profit' for the impact of changes in the CSM.
- More than half of the insurers that reported an operating profit (or similar) metric saw an increase from 2022 to 2023.
- **9** insurers did not report an OPAT or other alternative profit measure and instead reported only 'net profit'.

Adjustments to 'net profit' to arrive at OPAT metric

'Net profit' adjusted to:	Number of insurers
Exclude:	
Amortisation of intangibles	20
Income tax[1]	23
Discontinued operations	14
(Un)realised investment gains/losses	19
Impact of onerous contracts	4
Other[2]	38
Include:	
Changes in the CSM	1

1 Includes adjustments for the income tax related to the adjusting items as well as unusual tax or impacts of newly enacted tax rate changes. Some report their operating profit on a pre-tax basis.

2 Includes adjustments for extraordinary items, provision for restructuring costs, market related impacts that differ from management expectations, changes in assumptions and methodology, impacts of management action and various other items.

Profitability metrics (cont.)

Non-life insurers' updated profitability ratios reflect insurance revenue and insurance service expenses

Non-life insurers

- Ratios (including claims, loss and combined ratios) are now typically based on IFRS 17 insurance revenue. The base calculation methodology is insurance service expenses divided by insurance revenue.

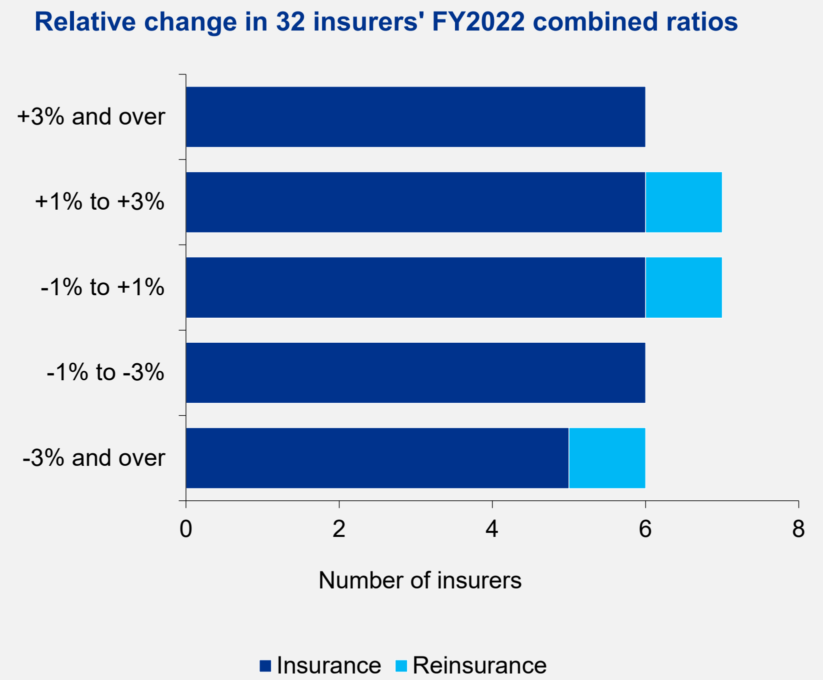
Which KPIs were reported and what is the impact?

Many insurers reported a **combined ratio.** The impact of adopting a calculation method based on IFRS 17 differed between insurers depending on how they calculated it. Examples include the following.

- ***Using directly attributable expenses:*** Typically the combined ratio is lower because fewer expenses are included under IFRS 17 (only directly attributable expenses) than under IFRS 4.
- ***Including discounted insurance liabilities:*** This results in lower insurance service expenses and lower combined ratios. The ratio is impacted by changes in interest rates. Some insurers also provided an undiscounted combined ratio.
- ***Including losses on onerous contracts***: This has resulted in an increase in the combined ratio for some insurers because of the increase in insurance service expenses.
- ***Excluding investment components from insurance revenue:*** The exclusion of investment components from insurance revenue and insurance service expense has caused decreases in the combined ratio for some insurers.

On the next page, we provide further detail on differences in calculation methodology for the combined ratio.

Combined ratios applying IFRS 17



Profitability metrics (cont.)

Non-life insurers' updated profitability ratios reflect insurance revenue and insurance service expenses

Non-life insurers

- The following table shows the differences we observed in how **40** insurers calculated the combined ratio in their FY23 reporting, including the adjustments they made compared with the base calculation. Only **2** insurers used the base calculation[1] without adjustment.
- The adjustments for reinsurance fall into three different subcategories as shown in the table. **2** insurers provided a combined ratio both before and after reinsurance.
- **11** insurers have continued using a denominator comprising a revenue metric that is not based on IFRS 17 (e.g. earned premiums or gross written premiums).
- **11** insurers disclosed a discounted combined ratio and **13** insurers disclosed an undiscounted combined ratio. **6** insurers provided the combined ratio on both a discounted and undiscounted basis.

Adjustments to the combined ratio

Base calculation[1]	Number of insurers making adjustment
Adjusted for effect of reinsurance, of which:	
Both ISE and IR adjusted	22
Reinsurance result adjusted in ISE	9
Only IR adjusted	1
Adjusted to include other expenses[2]	**13**
Other adjustments[3]	**9**

1 Base calculation for the combined ratio is insurance service expenses (ISE) divided by insurance revenue (IR).

2 The combined ratio therefore includes directly and (some or all) non-directly attributable expenses.

3 Insurers have made various other adjustments to the numerator such as excluding the impact of onerous contracts or acquired contracts, or excluding certain costs.

Value and capital metrics

New metric uses shareholders' equity and net CSM to indicate total value of the insurance business

13 insurers have started reporting the aggregate of shareholders' equity and the CSM net of tax, reinsurance and non-controlling interests to indicate the value of the insurance business. This is sometimes referred to as 'comprehensive equity' or 'adjusted book value'.

Although this might appear to be a good starting point for a business value metric, it may not incorporate the value of all parts of the business – e.g. it may exclude contracts under the PAA that have no CSM or non-IFRS 17 value-generating business (e.g. investment contracts under IFRS 9).

Therefore, some insurers may prefer to adjust their comprehensive equity metric to include:

- the value of IFRS 9 investment contracts – i.e. by including the present value of the contracts' future profits; and/or
- the present value of PAA contracts' future profits in the life business based on expected renewals. Note that there is generally no adjustment for PAA contracts in non-life business.

Insurers in our population often did not provide the exact assumptions underlying these adjustments.

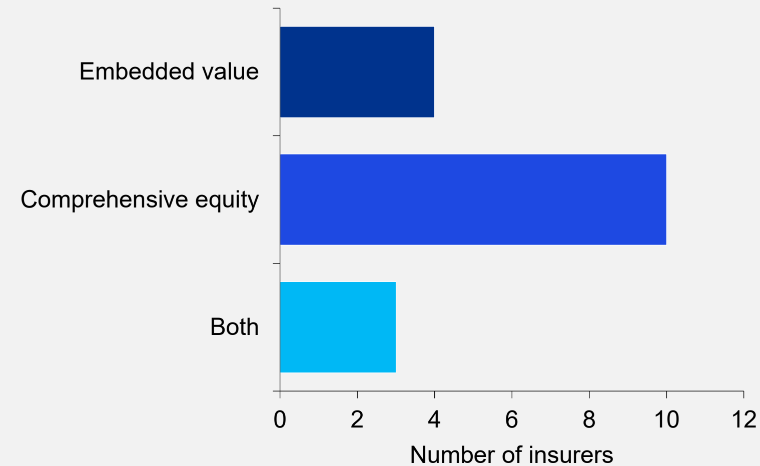
29 insurers reported book value, equity or net asset value per share – generally calculated as shareholders' equity divided by the number of shares outstanding at the end of the period (i.e. no inclusion of the CSM).

Most insurers reported a financial leverage ratio or similar debt or gearing ratios. **8** insurers have incorporated the CSM post-tax into their metric since adopting IFRS 17 – e.g. using total gross debt divided by the sum of shareholders' equity, CSM post-tax and total gross debt. This has decreased the leverage ratio.

The number of insurers that provided embedded value[1] and comprehensive equity metrics is as follows.

Value measure

Reported at 31 December 2023[1,2]



[1] Different bases exist for embedded value, such as market-consistent embedded value and European embedded value. See also our previous publication.

[2] 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.

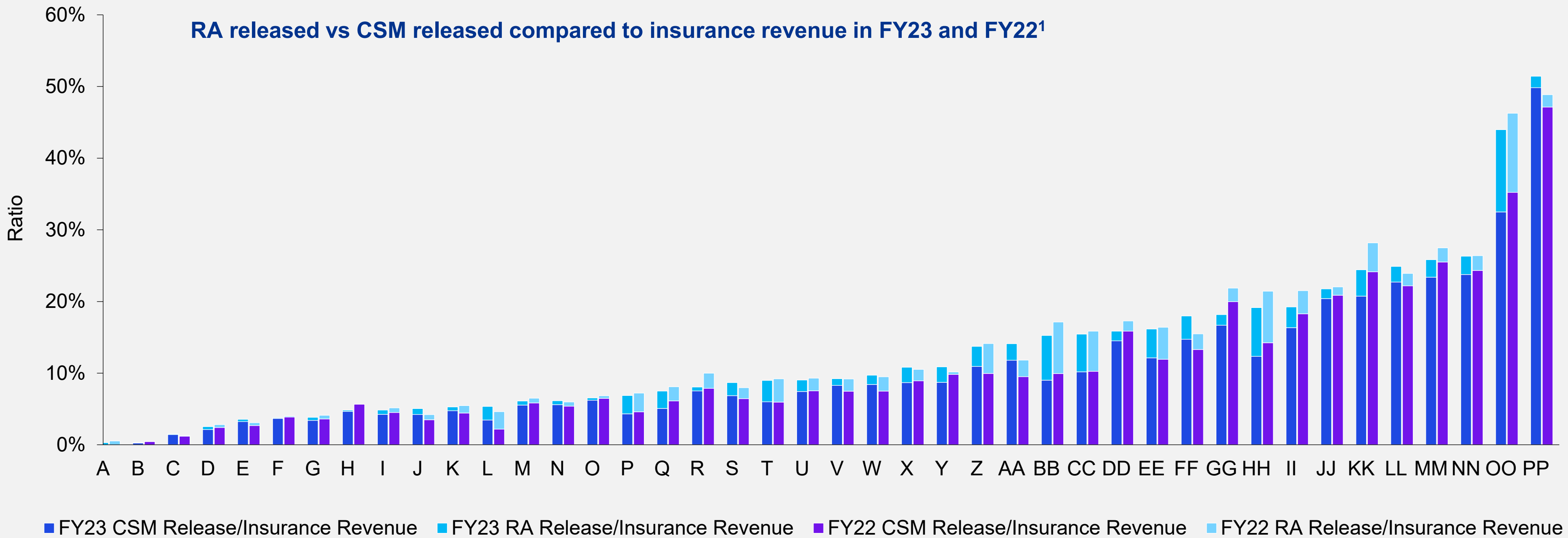
Life & Health metrics (cont.)

New performance metrics may develop that analyse insurers' growth in more detail

Profitability analysis

Analysing the RA release together with the CSM release provides valuable insights into the key drivers of an insurer's profitability.

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



[1] The diagram is for illustrative purposes only and shows how 42 insurers could be compared in terms of the RA released to insurance revenue in the reporting period and the CSM released in the period for insurance contracts services provided vs the insurance revenue for the period.

Transition to IFRS 17 and IFRS 9

Impact on opening equity

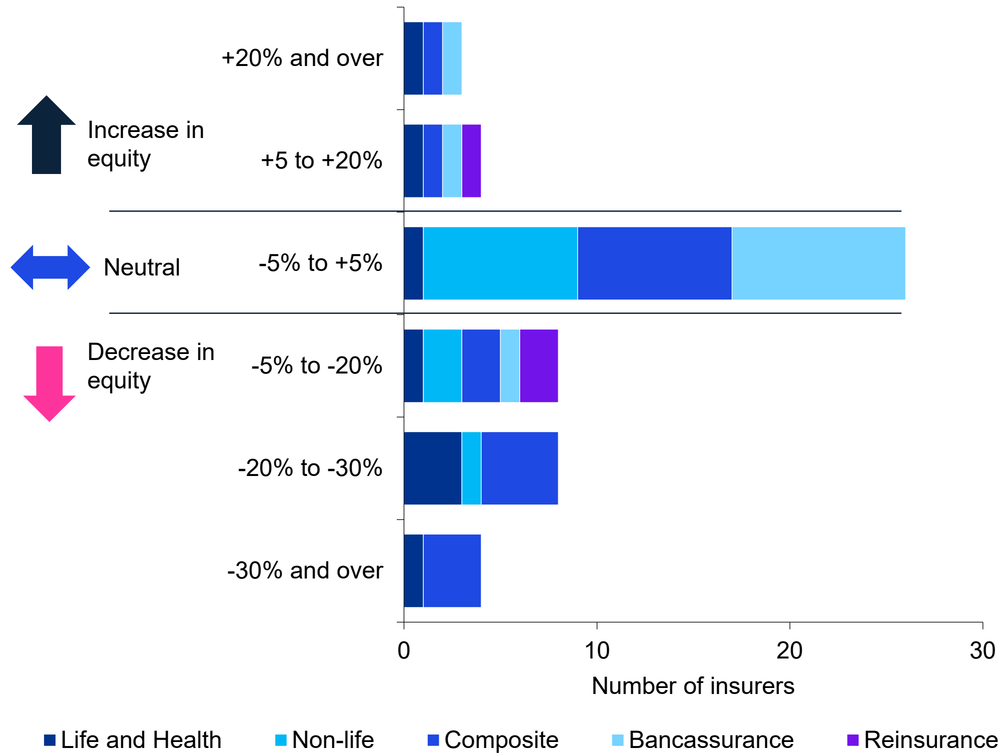
Opening equity for L&H business significantly impacted by IFRS 17 and IFRS 9; impact for non-life business lower

53 insurers in our population with a 31 December year end[1] have provided a point estimate impact of adopting IFRS 17 on their opening equity as at 1 January 2022.

13 of these insurers reported a different equity impact as at 1 January 2022 in the annual report compared with their half-year reporting (see our half-year analysis). Some reported that this was due to refinement in their modelling but most did not explain the changes.

Several insurers did not present an opening balance sheet as at 1 January 2022 in their statement of financial position. Most of these insurers instead had a reconciliation showing the impact of adopting IFRS 17 and IFRS 9 in the notes to the financial statements[1].

Impact on equity as at 1 Jan 2022 as disclosed in the FY23 accounts[2]



1 Some insurers disclosed only a reconciliation from IFRS 4 to IFRS 17 or from IAS 39 to IFRS 9.

2 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.

Impact to profit or loss

Insurers' reporting shows a wide-ranging impact on net profit from adopting IFRS 17 and IFRS 9

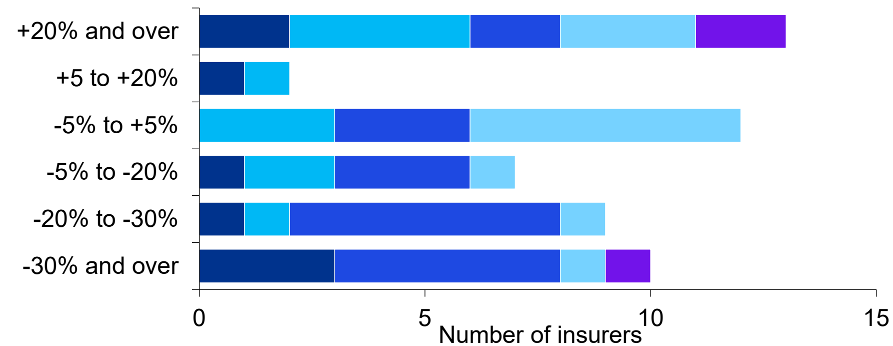
The impact of IFRS 17 and IFRS 9 on FY22 net profit varied between insurers, including between those in the same segment.

What do insurers' reports identify as the key drivers of changes in net profit under IFRS 17 and IFRS 9?

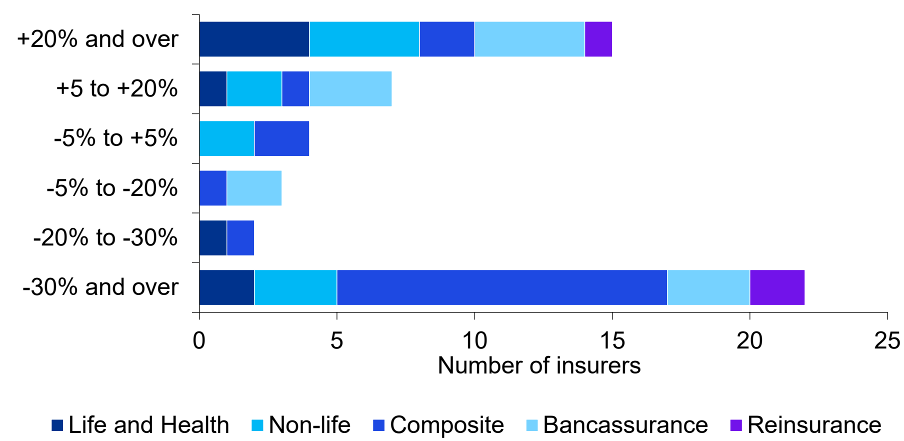
- ***Discounting of insurance liabilities:*** This has been amplified in the recent increasing interest rate environment and affects both non-life and L&H insurers, especially if they have longer-term liabilities.
- ***Introduction of the CSM:*** This will result in delayed profit recognition for many products depending on the previous accounting policies, although future profitability may be more predictable.
- ***Reclassifying financial assets:*** Either 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.
- ***Reported impact on total comprehensive income:*** This was also significant with the majority of insurers reporting either an increase of over 20% or a decrease of over 30%, as seen in the graph on the bottom right.

IFRS 17 and IFRS 9

Impact on 53 insurers' FY22 net profit



Impact on 53 insurers' FY22 total comprehensive income



Transition methodology

Modified retrospective approach and fair value approaches were popular

As previously reported, insurers in our population applied a mixture of transition approaches. The modified retrospective approach (MRA) and fair value approach (FVA) were both commonly applied when the full retrospective approach (FRA) was impracticable for certain groups of contracts.

The most common reasons disclosed for not applying the FRA were:

- lack of data;
- needing hindsight to make assumptions; and
- prohibitive cost and effort.

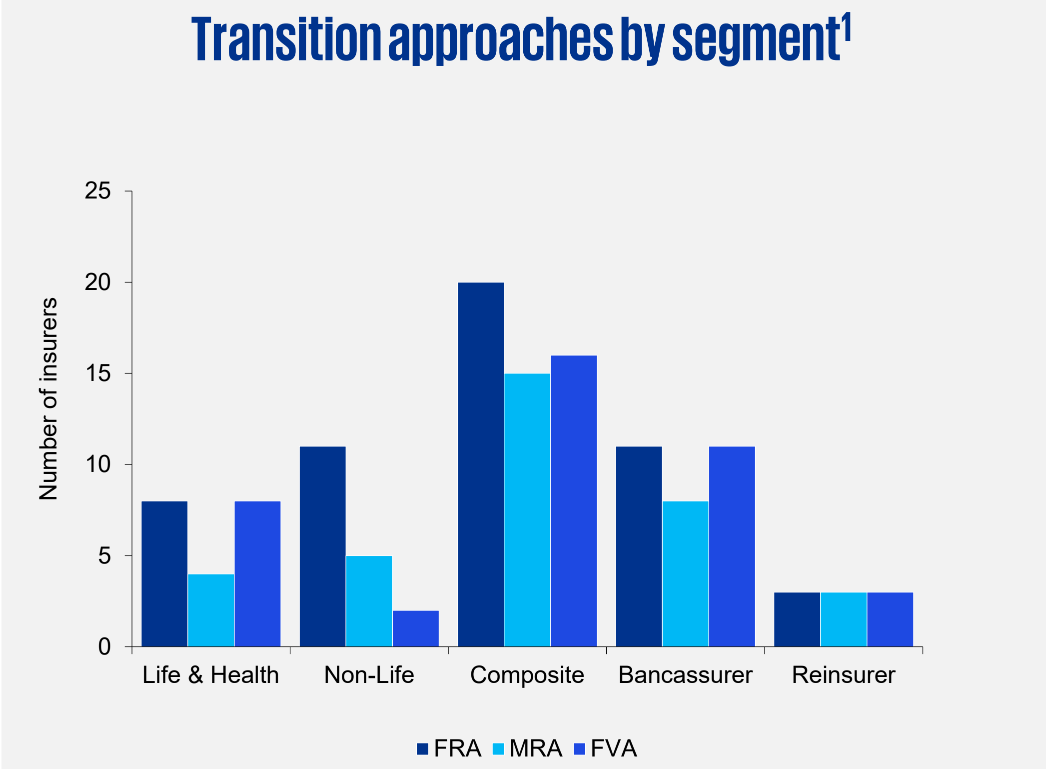
Assumptions used for FVA

Insurers that used the FVA generally described the methodology used to determine the CSM at the date of transition. In only a few cases did insurers provide quantitative detail on the assumptions they used to determine the fair value of groups of contracts at the date of transition, including:

- yield curves as at 1 January 2022; and
- the cost of capital applied.

CSM at the date of transition

Insurers are required to disclose the CSM balance separately for groups determined using the MRA and FVA at the date of transition. This disclosure will be required on an ongoing basis until those groups no longer exist (or are immaterial). Insurers that apply the EU carve-out to ignore the annual cohort requirement face additional complexity in determining this disclosure, because the groups existing at the date of transition are open to new contracts. We observed some insurers excluding the contracts that are subject to the carve-out from this CSM disclosure.



[1] Insurers can apply multiple transition approaches as the approach is determined for each group of insurance contracts.

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

FY 2022

FY 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

H1 2023

First HY reporting based on IFRS 17 and IFRS 9 – more companies are required to report under the new accounting standards

FY 2023

First FY financial statements based on IFRS 17 and IFRS 9

Coming next: 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 review (PIR)

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

Keeping in touch

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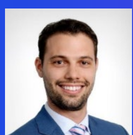

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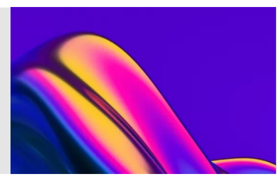
Follow 'KPMG IFRS' on LinkedIn or visit kpmg.com/ifrs for the latest news.

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

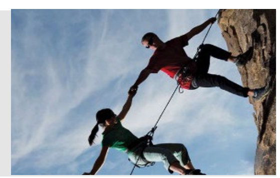
Acquiring insurance contracts

Real-time IFRS 17 – Half year reporting



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

Appendix

Appendix – Company selection

Company	Segment	Domicile
Absa Group Limited	Bancassurance	Africa
Admiral Group	Non-life	Europe
Aegon	Composite	Europe
Allianz	Composite	Europe
ASR Nederland	Composite	Europe
Assicurazioni Generali	Composite	Europe
Aviva	Composite	Europe
AXA	Composite	Europe
Baloise Holding	Composite	Europe
Banco Bradesco	Bancassurance	Americas
BNP Paribas	Bancassurance	Europe
CaixaBank	Bancassurance	Europe
Grupo Catalana Occidente	Non-life	Europe
CNP Assurances	Composite	Europe
Coface	Non-life	Europe
Credit Agricole	Bancassurance	Europe
Desjardins Group	Bancassurance	Americas
Direct Line Insurance Group	Non-life	Europe
Discovery Limited (HY report)	Composite	Africa
Deutsche Zentral-Genossenschaftsbank (DZ Bank)	Bancassurance	Europe
Fairfax Financial Holdings Limited	Non-life	Americas
Gjensidige Forsikring	Composite	Europe
Great Eastern	Composite	Americas
Great West Life	Life & Health	Americas
Hannover Ruck (Hannover Re)	Reinsurance	Europe
Helia	Non-life	ASPAC

Company	Segment	Domicile
Hiscox	Non-life	Americas
HSBC	Bancassurance	Europe
iA Financial Corporation	Composite	Americas
Insurance Australia Group Limited (HY report)	Non-life	ASPAC
Intact Financial	Non-life	Americas
KBC Group	Bancassurance	Europe
Lancashire	Non-life	Americas
Legal and General	Life & Health	Europe
Lloyds Banking Group	Bancassurance	Europe
M&G	Life & Health	Europe
Manulife Financial	Life & Health	Americas
Mapfre SA	Composite	Europe
Münchener Rückversicherungs-Gesellschaft (Munich Re)	Reinsurance	Europe
NN Group	Composite	Europe
OUTsurance Insurance Company (HY report)	Composite	Africa
Phoenix group Holdings Plc	Life & Health	Europe
PICC Property and Casualty Company Limited	Non-life	ASPAC
Ping An Insurance (Group) Company of China	Composite	ASPAC
Prudential	Life & Health	Europe
QBE Insurance Group	Composite	ASPAC
Sampo	Composite	Europe
Sanlam Limited	Composite	Africa
SCOR	Reinsurance	Europe
Storebrand	Composite	Europe

Appendix – Company selection (cont.)

Company	Segment	Domicile
Suncorp Group Limited (HY report)	Bancassurance	ASPAC
SunLife Financial	Life & Health	Americas
Talanx	Composite	Europe
Tryg	Non-life	Europe
Unipol Gruppo	Composite	Europe
Wüstenrot & Württembergische (W&W)	Bancassurance	Europe
Zurich Insurance Group	Composite	Europe

Notes

- Our population includes insurers whose annual report or half-year report was available by our cut-off date of 5 April 2024. These reports were used for the analysis included in the sections titled 'Accounting policies and disclosures' and 'Transition to IFRS 17 and IFRS 9'. For the analysis in the section titled 'Key performance indicators (KPIs)' we have also used other sources of information including investor presentations published in respect of the annual 2023 reporting period.
- 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'.

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Publication name: Insurers' first annual reporting under IFRS 17 and IFRS 9

Publication number: 137866

Publication date: April 2024