



2022 insurers' reporting on IFRS 17 and IFRS 9

Real-time IFRS 17

—

April 2023





What did we look at?

Following [our analysis](#) on the key themes arising from many insurers' investor education sessions in 2022, we now focus on the disclosures in insurers' 2022 annual financial statements on implementing the new accounting standards – i.e. IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*.

We analysed these and other 2022 disclosures from insurers across the following four key areas.

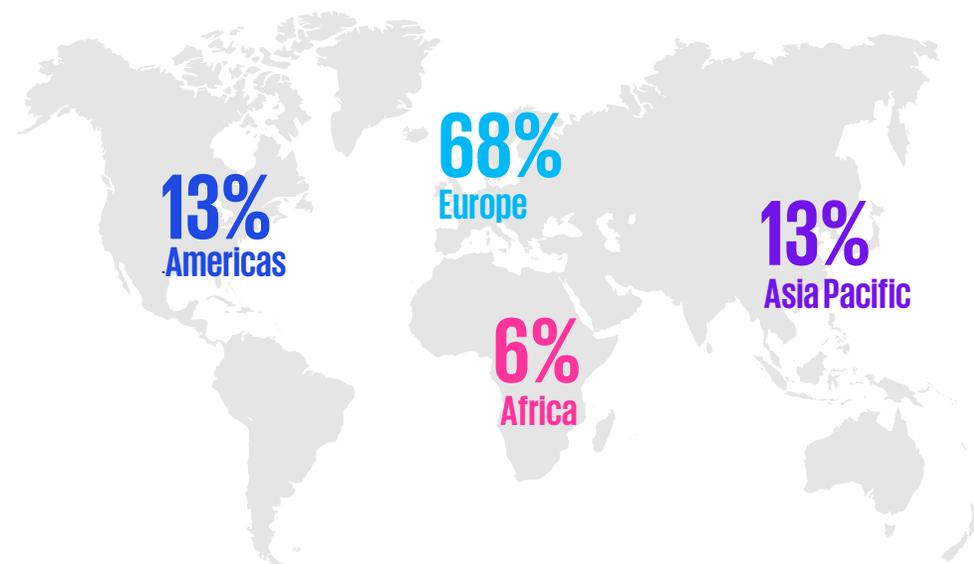
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosures and accounting policies.
- Restatement of opening balance sheet.
- Restatement of 2022 comparatives.
- Ongoing IFRS 17 and IFRS 9 reporting.

A sufficient number of insurers reported on these areas to allow a meaningful comparison of accounting policies under IFRS 17 and IFRS 9 and their financial impact. However, most expect their impacts may potentially change.



For more information visit and bookmark our [Real-time IFRS 17 page](#)

60 insurers globally



Segments

20%

Life & Health (L&H)

12%

Non-life

40%

Composite

7%

Reinsurance

21%

Bancassurance



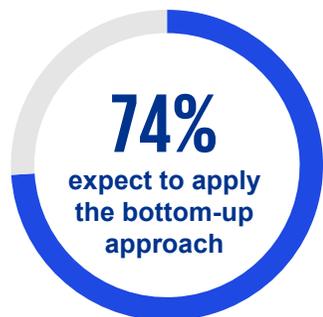
What are the key highlights?

All insurers disclosed their expected accounting policies under IFRS 17 and IFRS 9, but the level of detail varied widely

IAS 8 disclosures



Discount rates



44 insurers disclosed their opening equity impact as at 1 January 2022



L&H generally lower



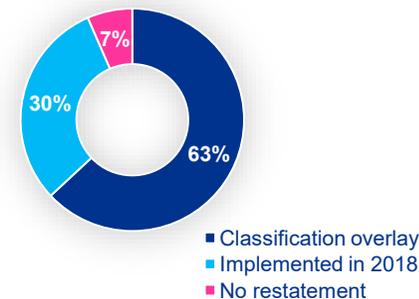
Non-life expect to see less impact

10 insurers expect wide variety in transition approaches applied to determine opening CSM

2022 comparatives

Most insurers expect to provide restated comparatives before or together with their first interim report

IFRS 9 classification overlay popular



Mixed use of OCI option under IFRS 17



KPIs largely retained, but CSM will play bigger role for L&H insurers



01

IAS 8 disclosures and accounting policies

What is reflected in the **IAS 8 disclosures**?

How do insurers intend to determine **groups of insurance contracts**?

What information is provided on the **PAA**?

Which approach do insurers expect to use to determine the **discount rate**?

What is the intended measurement approach for the **risk adjustment**?

What **confidence levels** were disclosed for the risk adjustment?

How much is the **CSM** in the OBS expected to be?

How do insurers expect to **determine coverage units to release the CSM** in profit or loss?

What information did insurers disclose on **IFRS 9**?

What is reflected in the IAS 8 disclosures?

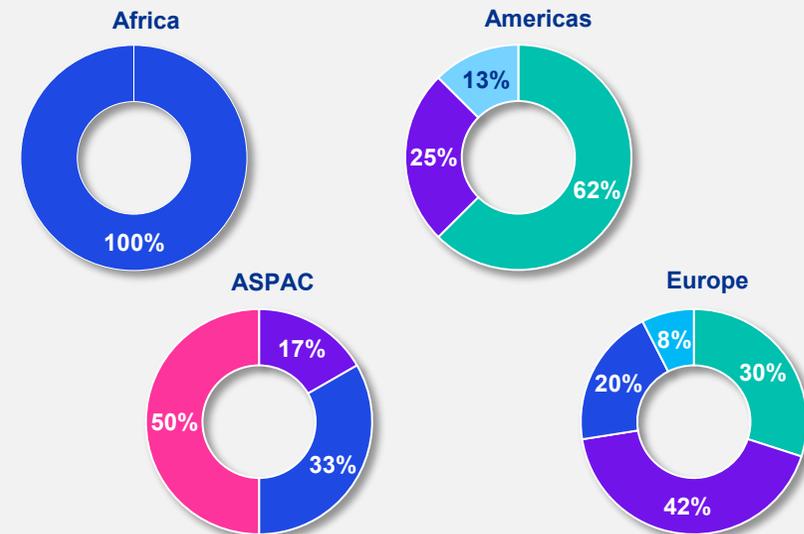
Mainly Canadian and large European insurers have provided restated opening balance sheets to explain the quantitative impact of IFRS 17 and IFRS 9

Under IAS 8, companies need to disclose known or reasonably estimable information relevant to assessing the possible impacts of new accounting standards in their financial statements in the year of initial application.

Insurers in our sample have included in their 2022 financial statements:

- **qualitative disclosures** about the expected impacts of IFRS 17 and IFRS 9, including information on the new accounting policies that will be implemented in 2023. Some insurers have disclosed only high-level policies, but most have also indicated how they determined their key choices and judgements; and
- **quantitative information**, which mainly shows the impact on opening equity from applying IFRS 17 as at 1 January 2022 compared to closing equity under IFRS 4 *Insurance Contracts* as at 31 December 2021. Some insurers have provided quantitative or directional information on profitability and KPIs. This often builds on the information provided in separate [investor education](#) sessions.

Insurers' IAS 8 disclosures¹



¹ Insurers have presented IAS 8 disclosures in different ways. We have categorised them as follows.

- **Restated opening balance sheet (OBS):** The expected OBS shows either all or condensed line items impacted by IFRS 17 and IFRS 9, including opening equity.
- **Point estimate:** A specific impact on opening equity is provided, but no restated OBS – e.g. opening equity is expected to decrease by EUR 1bn or by 10 percent.
- **Range:** The impact on opening equity is provided as a range of possible outcomes – e.g. opening equity is expected to decrease by EUR 1–2bn or by 10–20 percent.
- **Only qualitative disclosure:** Only the impact of IFRS 17 and IFRS 9 on accounting policies is provided; no quantitative impact on opening equity is disclosed.



How do insurers intend to determine groups of insurance contracts?

Insurers mention various factors to group insurance contracts that are subject to similar risks and managed together

Measurement under IFRS 17 is based on groups of insurance contracts, which are based on portfolios of contracts that have similar risks and are managed together. Some insurers reported the factors they considered in making judgements in setting portfolios, including the following.

Contracts with similar risks

- Individual vs collective/group risks, including the underwriting method.
- Consideration of different products and levels of pricing (individual product pricing or pricing groups).
- L&H insurers considered protection risk (also further broken down by types of risk), longevity risk and discretionary participating investment contracts with no insurance risk.

Contracts managed together

- Regulatory grouping – some countries have prescribed regulatory grouping or reserving classes, which insurers use to manage the insurance business.
- Internal management information and organisational structure based on geographical areas, lines of business, distribution channels, legal companies and segmentation under IFRS 8 *Operating Segments*.
- For (participating) life insurance – allocation and aggregation in specific segregated funds.

EU exemption for annual cohorts

After dividing portfolios in three defined profitability groups, most insurers disclosed that they intend to group contracts into annual cohorts under IFRS 17, rather than at a lower level.

Insurers in the EU¹ have an option to not apply the annual cohorts requirement for certain types of contracts. Of the 30 eligible European insurers in our selection, 24 reported that they issue insurance contracts that are in the scope of the exemption and explain whether they expect to apply the exemption.

14 insurers expect to apply the EU annual cohorts exemption

The most common insurance contracts to which insurers expect to apply the EU exemption are those that qualify for the variable fee approach (VFA). The application of the EU exemption is mainly disclosed for portfolios in Spain, France and Italy.

¹ Insurers that apply IFRS® Accounting Standards as adopted by the EU.



What information is provided on the PAA?

Many non-life insurance contracts are expected to be eligible for the PAA

The premium allocation approach (PAA) is a simplified model and may be used for short-duration contracts to measure the liability for remaining coverage (LRC). This approach is similar to the unearned premium model used by many insurers under IFRS 4.

Eligibility for PAA

An insurer may apply the PAA to measure a group of insurance contracts if, at inception of the group:

- the coverage period of each contract in the group is one year or less; or
- the insurer reasonably expects that applying the PAA would produce an LRC that would not differ materially from applying the general measurement model.

Insurers will typically apply the PAA to most non-life (re)insurance contracts and certain health and group/collective contracts.

Notably, one reinsurer indicated that it has elected not to apply the PAA for various reasons, including:

- increasing transparency on earning patterns and value creation;
- comparability between lines of business; and
- improving alignment with both regulatory reporting and internal performance measures.

PAA eligibility

Insurers that have provided information for their non-life segments expect nearly all contracts to be eligible for the PAA and report eligibility percentages in the high 90s.

Expensing of IACF

Eight insurers in our selection indicated that they will recognise insurance acquisition cash flows (IACF) immediately in profit or loss under the PAA.

Discounting of the LIC

Discounting of the liability for incurred claims (LIC) mainly applies to insurers with long-tail claims. Generally, insurers with short-tail claims elect not to apply discounting.

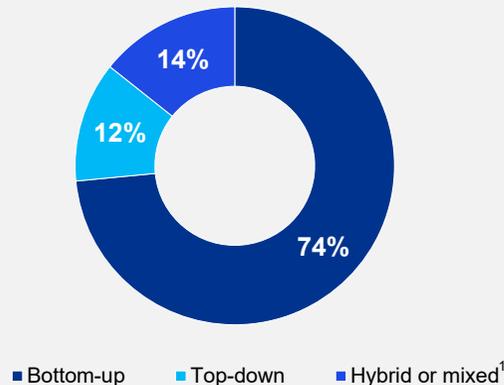
Which approach do insurers expect to use to determine the discount rate?

Insurers generally favour the bottom-up approach for determining discount rates, especially in Europe, to align with Solvency II

Discounting adjusts an insurance contract's expected cash flows to reflect the time value of money and financial risks. Under IFRS 17, the discount rate needs to be consistent with observable current market prices and reflect the characteristics of the cash flows and the insurance contract's liquidity characteristics. Companies have the choice to apply either a:

- **'bottom-up' approach** reflecting a risk-free yield curve and an illiquidity premium; or
- **'top-down' approach** using a reference portfolio of assets adjusted to eliminate any factors that are not relevant to the insurance contracts – e.g. credit risk.

Discount rate approach disclosed by 49 insurers



74% of insurers expect to use the bottom-up approach

The most common source of the risk-free yield curve is Solvency II risk-free rates through European Insurance and Occupational Pensions Authority (EIOPA) curves. Other common sources include swap curves and government bond rates.

Insurers derived the illiquidity premium using different approaches, including:

- the long-term weighted average credit spread of a reference portfolio of assets, less credit risk and other factors that are irrelevant to the illiquidity characteristics of insurance contracts; and
- observable market liquidity premiums for financial assets, which were adjusted to reflect the illiquidity characteristics of the cash flows for liabilities using risk-adjusted spreads of corporate and government bonds.

Some insurers disclosed that certain non-life products are discounted with a risk-free rate without an illiquidity premium, because the insurance contracts are fully liquid.

¹ Insurers may use different approaches for different products. Some insurers described a hybrid approach, which typically determines the risk-free rate bottom-up but derives the illiquidity premium from a portfolio of assets.



What is the intended measurement approach for the risk adjustment?

The approach varies between three broad methods, with a confidence level approach being the most popular

No prescribed approach for risk adjustment

IFRS 17 does not specify particular techniques for measuring the risk adjustment, but requires insurers to make confidence level disclosures as a means for comparison. Some insurers reported that diversification has been considered within a legal entity; others have also considered diversification between legal entities, depending on their pricing practice.

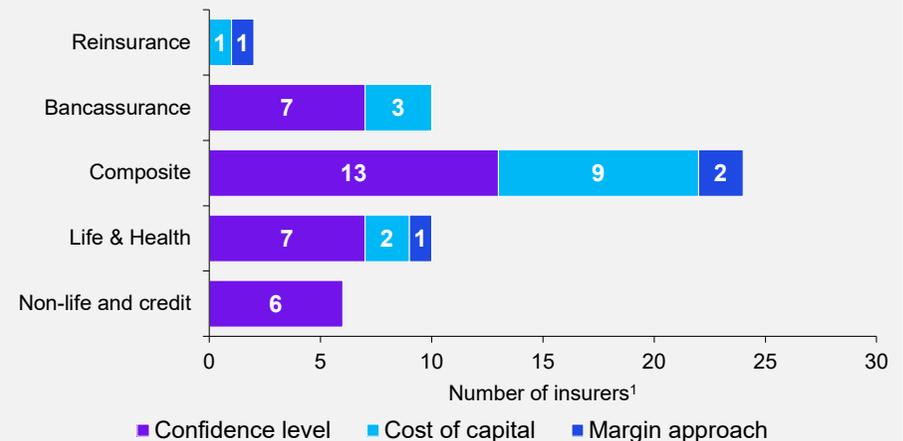
What information do insurers provide on the risk adjustment approach?

- Some insurers disclosed a different approach for different company segments – e.g. a cost of capital approach for the L&H segment and a confidence level approach for the non-life segment.
- Two thirds of insurers that disclosed the risk adjustment measurement approach provided a broad indication of what their confidence level may be under IFRS 17.
- Insurers that disclosed a confidence level generally use this approach or a cost of capital approach to determine the risk adjustment.

Risk adjustment approach

Most insurers intend to apply a **confidence level technique**, while others intend to apply either a **cost of capital** or a **margin approach** – e.g. provision for adverse deviation (PAD).

45 insurers disclosed their risk adjustment approach



¹ Insurers with a mix of two approaches have been included as two individual approaches, which takes the total count above to 52.

What confidence levels were disclosed for the risk adjustment?

Confidence levels vary widely across insurance segments and the bases for determining them are generally not yet fully disclosed

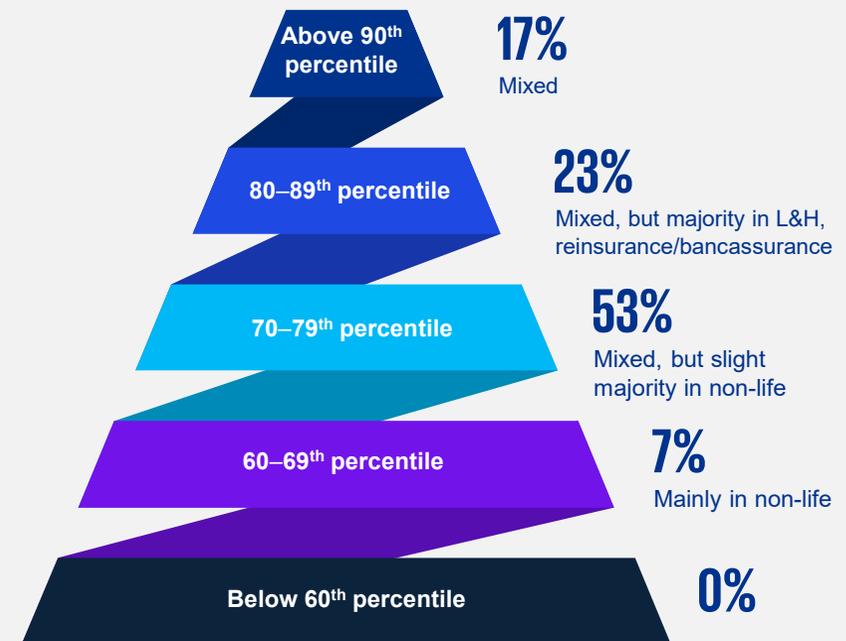
Insurers may adopt a confidence level, cost of capital or other method to determine the risk adjustment. If they use a methodology other than a confidence level technique, then they are required to disclose the confidence level corresponding to the results of that technique to allow users to understand how assessments of risk aversion differ between companies.

Some factors have limited the comparability of the confidence levels disclosed by 30 insurers. This includes the following.

- Methodologies may differ between insurers and are not always clearly disclosed.
- The consideration of reinsurance may vary and is not always clear.
- It is not clear in all cases whether insurers have applied:
 - a one-year view of risk applied to each year until the entire fulfilment of the obligations; or
 - an ultimate view of risk over all future years.

A clear explanation of the items above and any further relevant significant judgements would improve comparability of confidence levels.

L&H (re)insurers disclose marginally higher confidence levels





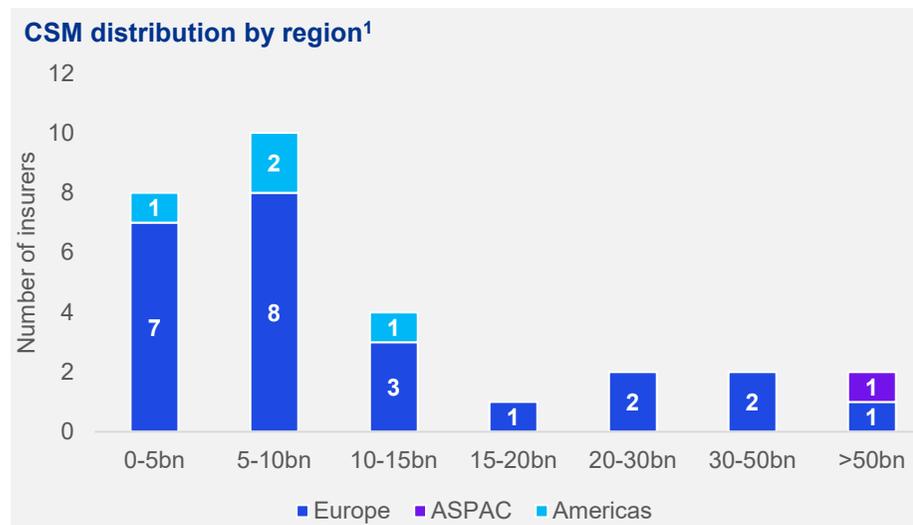
How much is the CSM in the OBS expected to be?

The size of the CSM varies and will be a key contributor to future profits. It is released in profit or loss as insurance contract services are provided each period

The contractual service margin (CSM) represents the unearned profit for profitable groups of insurance contracts.

29 insurers disclosed the CSM they expect to recognise in the OBS at the date of transition. The non-life insurers in our selection do not disclose a CSM or have an insignificant CSM because they report most or all business on a PAA basis.

The distribution of the CSM by region and segment is provided below.



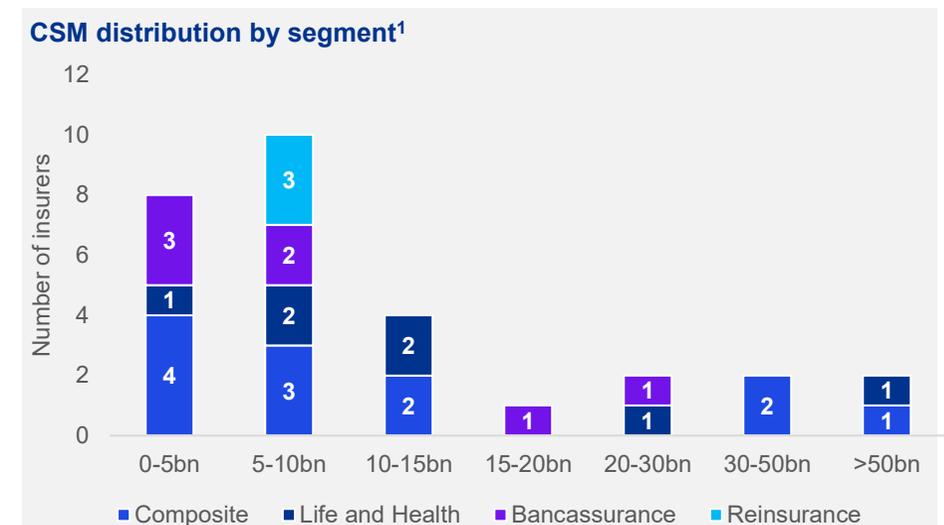
¹ All amounts in EUR.

CSM release

IFRS 17 requires insurers to disclose when they expect to recognise the CSM remaining at the reporting date in profit or loss quantitatively, and in appropriate time bands.

Only a few insurers disclosed **CSM release patterns** and expect it to be **between 4 percent and 11 percent** of the CSM each year.

The IFRS 17 disclosures on the CSM release pattern in 2023 reporting will provide more insight.





How do insurers expect to determine coverage units to release the CSM in profit or loss?

The CSM is released in profit or loss as insurance contract services are provided each period via coverage units, but insurers are yet to provide detailed disclosures

The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group. This is determined by considering, for each contract, the quantity of benefits provided and its expected coverage period.

An insurer provides insurance contract services to the policyholder of an insurance contract, which include:

- coverage for an insured event (insurance coverage);
- for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return services); and
- for insurance contracts with direct participation features under the variable fee approach, the management of the underlying items on behalf of the policyholder (investment-related services).

Adjustments to coverage units

A number of insurers indicated that they intend to **discount coverage units** to reflect the time value of money. This will accelerate the release of the CSM in profit or loss.

Other insurers indicated that they intend to adjust the coverage units for investment-related services in VFA contracts to reflect the **expected real-world 'over-returns' related to the management of underlying items**. The over-returns can be defined as the difference between the risk-free and expected investment return in each period, and can be a significant part of the CSM release.

Coverage units for reinsurance contracts held

For **reinsurance contracts held**, limited information is provided, but some insurers indicated they intend to use coverage units consistent with reinsured underlying contracts and adjusted for services provided under the reinsurance contract held.

Only 23 insurers provided detail on how they identify coverage units

- The CSM release is an important component of insurance revenue and driver of the insurance service result.
- Coverage units may differ by product, but limited information has been provided thus far.
- The insurers that have provided disclosures often note the 'sum assured', 'annuity payments in the period' and other types of maximum coverage as coverage units.

What information did insurers disclose on IFRS 9?

IFRS 9 impacts relate mainly to measurement model changes

IFRS 9 adoption

Most insurers in our sample applied the temporary exemption from adopting IFRS 9 – i.e. they are adopting IFRS 9 at the same time as IFRS 17. **14** insurers (mostly bancassurers) adopted IFRS 9 in 2018. Insurers have assessed their business models for investments in debt instruments and determined whether they need to be measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Accounting mismatches

Most insurers believe that accounting mismatches and volatility are significantly mitigated under IFRS 17 and IFRS 9 compared with IFRS 4 and IAS 39 *Financial Instruments: Recognition and Measurement*.

Expected credit losses (ECL)

Most insurers indicated that the effect of recognising ECL is not expected to be significant. This is mainly because the majority of debt assets are investment grade. IFRS 9 provides a low credit risk simplification so that most insurers recognise only 12-month ECL for these financial assets.

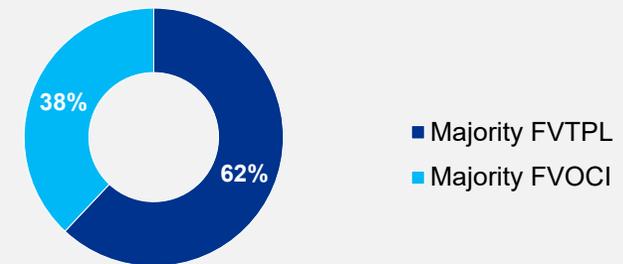
Solely payments of principal and interest

Most insurers have reported that they do not have a significant amount of assets with cash flows that are not solely payments of principal and interest (SPPI) that need to be measured at FVTPL.

Investments in equity instruments

For equity instruments that are not held for trading an insurer may, on initial recognition, make an **irrevocable election** to present subsequent changes in the fair value of the instrument in OCI. Other equity instruments are measured at FVTPL.

50 insurers disclosed measurement of investments in equity instruments



Those insurers indicating they intend to measure equity instruments at FVOCI are mainly **European**. Most insurers that have elected FVOCI for equity instruments also recognise the majority of their debt instruments at FVOCI and have elected the OCI option under IFRS 17. Some insurers that measure the majority of their equity instruments at FVTPL indicated that a small proportion of equity instruments that are not backing insurance contracts will be measured at FVOCI.



02

Restatement of opening balance sheet

Which **transition approaches** do insurers intend to apply to determine the OBS?

What is the **proportion of the CSM in the OBS** that was determined under retrospective approaches and the FVA?

What **differences between equity under IFRS 4/IAS 39 and IFRS 17/IFRS 9** were commonly reported ?

What is the **quantitative impact on opening equity**?



Which transition approaches do insurers intend to apply to determine the OBS?

Most insurers expect to apply a mix of all transition approaches to different groups of contracts

Retrospective approaches

The majority of insurers have indicated that, for certain groups of contracts, the full retrospective approach (FRA) is impracticable for various reasons, including the following.

- Data was not collected, is unavailable or is not at a sufficiently granular level due to system migrations, data retention or other prior company decisions.
- Historic assumptions and view of risk, including what management's historic intentions have been, could only be developed with the use of hindsight.

Application of the FRA varies widely, both by region and for the **number of years to which it will apply before the date of transition**. For example:

- many European insurers note they will restate financial years 2016–2021, which links directly to the introduction of Solvency II;
- Canadian insurers generally expect to restate only the 2021 financial year;
- in other markets, some insurers expect to apply the FRA from 2016; others expect no retrospective application; and
- non-life insurers more frequently disclosed that they expect to restate the majority of groups under the FRA.

When the FRA is impracticable for specific groups, insurers generally have a choice of applying the modified retrospective approach (MRA) or the fair value approach (FVA). The MRA aims to achieve the closest outcome to the FRA.

Fair value approach (FVA)

Applying the FVA is likely to involve significant judgement and is based on IFRS 13 *Fair Value Measurement*. Only **8** insurers have provided detailed disclosures on the FVA thus far.

When determining the fair values, some insurers noted:

- using regulatory valuations (e.g. Solvency II), a market-consistent balance sheet or recent transactions (e.g. business combinations) as a starting point for the fair value.
- determining the market-consistent remuneration for the cost of capital or the expected funds becoming available for distribution.

Wide variety of transition approaches

- Most insurers expect to apply a mix of retrospective approaches for different groups. Some have a clear preference for retrospective approaches; others prefer the fair value approach.
- Insurers need to provide adequate disclosures around the significant judgements and assumptions used in their 2023 reporting.



What is the proportion of the CSM in the OBS that was determined under retrospective approaches and the FVA?

Wide variety in how much of the CSM in the OBS is determined under a retrospective (full or modified) approach and the fair value approach

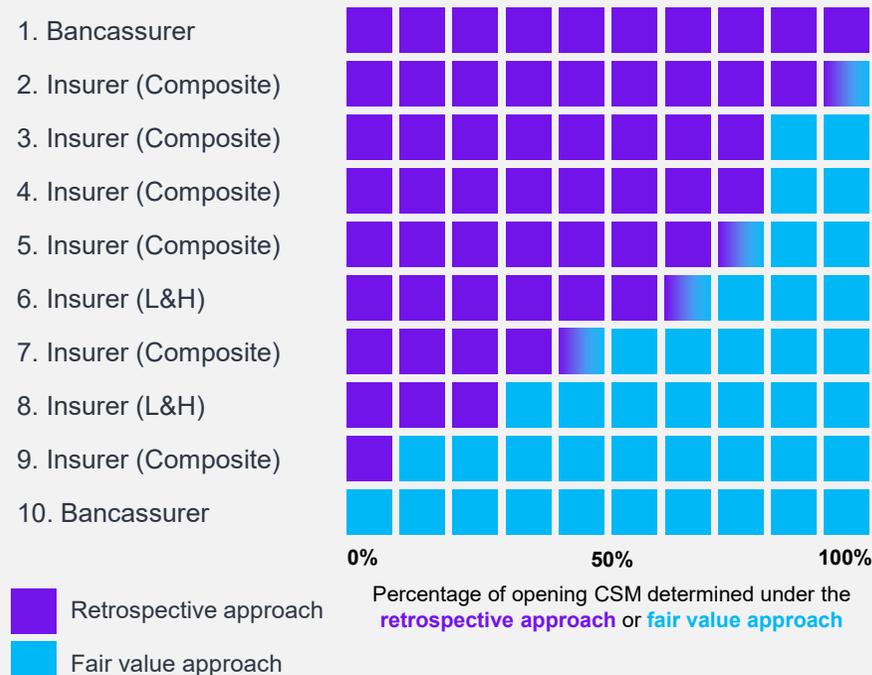
Impact of transition approach on CSM

The transition approaches applied can significantly influence the size of the opening CSM. The FRA and MRA aim to determine the CSM under a fulfilment concept. In contrast, the fair value approach is based on an exit notion and determines the CSM by taking the difference between the fair value of a group of contracts and the fulfilment cash flows at the date of transition.

This difference may have an impact on the size of the opening CSM. This will also impact both opening equity as at 1 January 2022 (e.g. a higher CSM in isolation will cause a larger decrease in equity) and the amount of profit recognised after that date in respect of contracts existing at 1 January 2022.

¹ Some insurers have only disclosed the proportion of insurance liabilities under each transition approach and not the related CSM amounts. These insurers are not included in the diagram.

10 insurers show wide variety in approach to determine opening CSM





What differences between equity under IFRS 4/IAS 39 and IFRS 17/IFRS 9 were commonly reported?

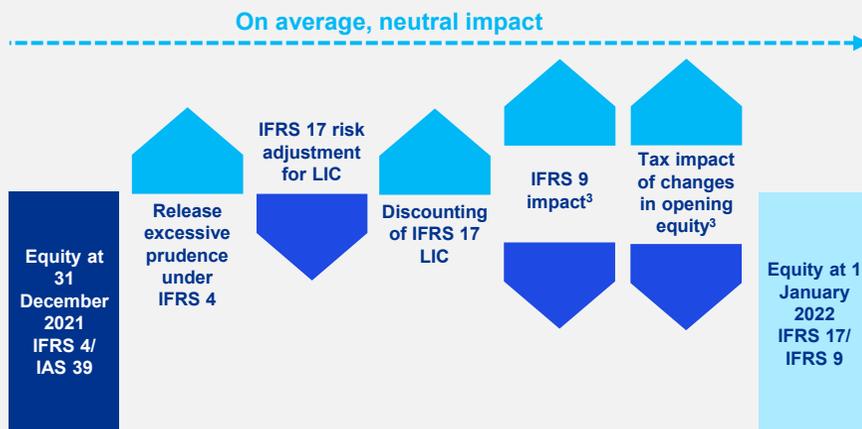
Differences between equity under IFRS 4 and IFRS 17 differ between insurers because of the diversity in practice under IFRS 4

Under IFRS 4, grandfathering of previous accounting policies was permitted, which led to diversity in practice. Therefore, differences between IFRS 4 and IFRS 17 are not the same for every insurer. However, insurers disclosed some common drivers for differences that typically increase or decrease restated equity as at 1 January 2022.

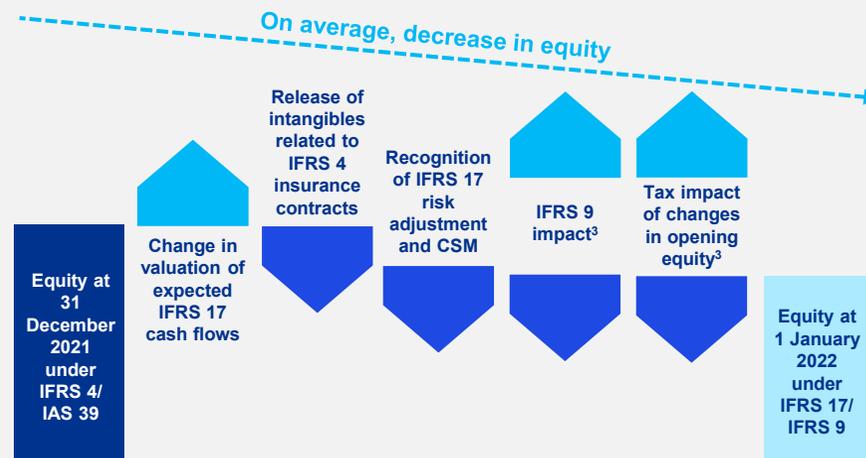
Other effects in equity

Some insurers intend to change their accounting policies on implementing IFRS 17 and IFRS 9 – e.g. for underlying items of VFA contracts. Most frequently, insurers mention that those changes are for applying the revaluation model for **owner-occupied properties** and the fair value model for **investment properties**, as well as measuring **treasury shares** and **investments in associates** at FVTPL.

PAA business of a non-life (re)insurer (segment)^{1,2}



GMM and VFA business of an L&H (re)insurer (segment)²



¹ Non-life insurers may have insurance contracts that fall under the GMM. For these contracts, the impact may be more akin to the impacts for an L&H (re)insurer depending on the policies applied under IFRS 4 and IAS 39.

² The size of the impact is indicative only and not necessarily representative of each insurer.

³ Effect can be either an increase or a decrease.



What is the quantitative impact on opening equity?

L&H (re)insurers (segments) expect opening equity to be significantly impacted by IFRS 17 and IFRS 9. Non-life (re)insurers (segments) expect a lower impact on equity

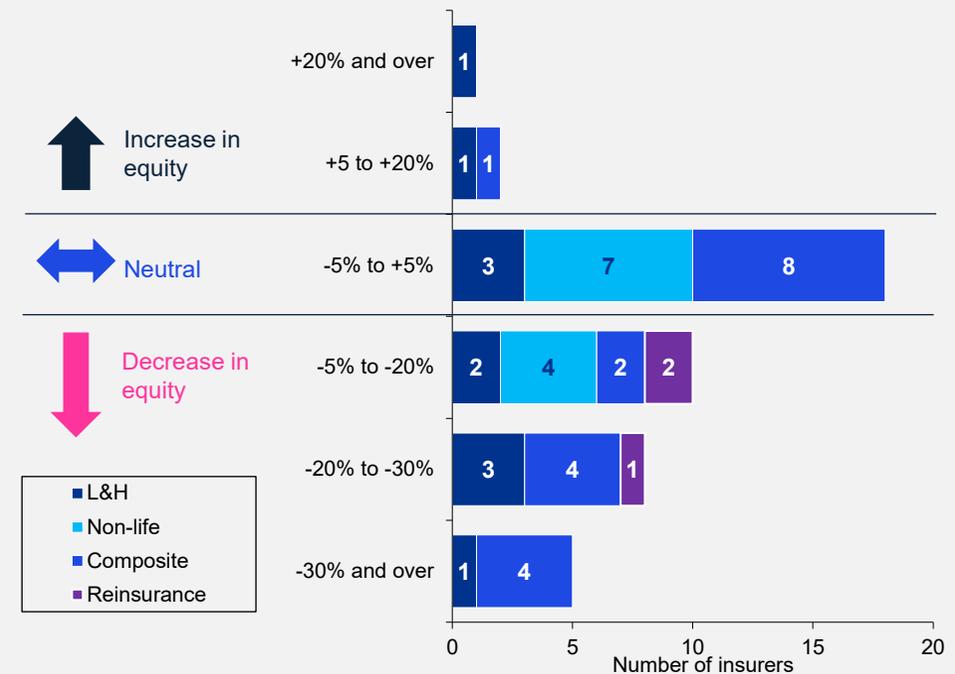
L&H (re)insurers generally expect opening shareholders' equity as at 1 January 2022 to be significantly impacted, due to:

- profit recognition patterns – under IFRS 17 deferred profits for in-force contracts will be captured in the CSM at the date of transition. Insurers disclose that profit recognition under IFRS 4 was often sooner than what is expected under IFRS 17.
- removal of accounting mismatches between insurance liabilities and backing assets – e.g. under IAS 39, changes in financial assets may have been recognised in OCI or in profit or loss (and subsequently in retained earnings); under IFRS 4, movements in insurance liabilities may not have been recognised in OCI or profit or loss to the same extent. Under IFRS 17 and IFRS 9, accounting mismatches are significantly reduced.
- differences in prudence in IFRS 4 reserves vs the size of the risk adjustment under IFRS 17.

Non-life and credit (re)insurers (segments) generally expect the impact on opening equity from implementing IFRS 17 to be smaller. Because of the differing impact between L&H and non-life segments, the impact on opening equity for **composite insurers** will depend on the business mix.

Bancassurers often expressed the quantitative impact on the Common Equity Tier 1 (CET1) ratio. This varied from a few basis points to 0.8 percent. Most bancassurers note that the CSM for the insurance segment and the consolidated CSM differ. This is due to eliminations of intra-group fees related to banking distribution channels and directly attributable costs incurred by other group entities. Not all bancassurers indicated the effect of intra-group eliminations, meaning that a more detailed comparison will only be possible using 2023 reporting.

44 insurers disclosed how they expect opening equity¹ to be impacted



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



03

Restatement of comparatives

When will insurers provide **restated 2022 comparatives** to the market?

How will insurers provide **IFRS 9 comparative information**?



When will insurers provide restated 2022 comparatives to the market?

Restated 2022 comparatives will be published at different points in time, but many insurers aim to provide information before or together with their first interim report

Although insurers will need to restate their 2022 comparative information for IFRS 17 in their interim reports, IAS 34 *Interim Financial Reporting* does not require full-year 2022 comparatives. Therefore, comparative information for subsequent quarters may become available only after the first quarter (Q1) or half-year (H1) report is published.

To address analysts' requests for full-year 2022 comparatives, some insurers expect to provide them:

- before the first interim report in either Q1 or H1 (e.g. in a separate transition document); or
- in the Q1 or H1 interim report.

In addition, some insurers intend to indicate which disclosures are made on a one-off basis and which will be presented in subsequent interim reports.

Insurers need to consider the following.

- Whether and how to accelerate publication of restated full-year 2022 comparatives.
- Whether to provide any disclosures in line with IAS 1 *Presentation of Financial Statements* and IAS 8 to explain the effects of implementing IFRS 17 and IFRS 9 in their upcoming interim reports.
- Whether to provide more insight into the transition to IFRS 9 and IFRS 17 for stakeholders by including additional voluntary disclosures in their first interim report(s) in 2023.

The table shows the comparative disclosures required in an H1 interim report under IAS 34 for selected statements. It also provides expected comparatives for an insurer that discloses roll-forward disclosures for liability components¹ under paragraphs 100–101 of IFRS 17, and the additional comparatives that insurers are considering.

	Current period	Comparative period
Statement of financial position	30 June 2023	31 December 2022
Statement of comprehensive income	30 June 2023 (from 1 January 2023)	30 June 2022 (from 1 January 2022)
IFRS 17.100–101 disclosures ¹	30 June 2023 (from 1 January 2023)	30 June 2022 (from 1 January 2022)
IFRS 17.100–101 additional comparative disclosures ²	N/A	31 December 2022 (from 1 January 2022)

¹ These include reconciliations from opening to closing balance for LRC, onerous contract groups, LIC, future cash flows, risk adjustment and CSM.

² Insurers are considering including additional comparative 2022 disclosures, either in the interim report or by cross-reference to a separate transition document.



How will insurers provide IFRS 9 comparative information?

Most insurers expect to apply the classification overlay to align IFRS 9 restated comparatives with IFRS 17, where possible

Restatement of IFRS 9 comparatives

Because comparative information for insurance contracts needs to be restated under IFRS 17, this may give rise to accounting mismatches with comparative information about financial assets presented under IAS 39.

Under IFRS 9, restatement of comparative information is typically not required. However, if an insurer chooses to restate comparatives under IFRS 9, then it needs to apply IFRS 9 fully for all financial instruments, except those derecognised during the comparative year.

Under IFRS 17, the **classification overlay**:

- is provided for comparative information about financial assets to alleviate the challenges associated with differing transition requirements; and
- allows an insurer to:
 - restate information for selected financial assets as if IFRS 9 had been applied; and
 - choose whether to apply IFRS 9's impairment requirements.

If the option is applied when IFRS 17 and IFRS 9 are first applied together, then the effect of the classification overlay is also recognised at the date of transition (1 January 2022).

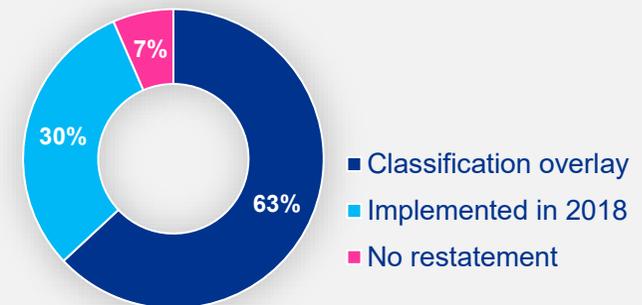
¹ 14 insurers implemented IFRS 9 in 2018. Some of these insurers intend to make use of the option to redesignate certain financial assets on adopting IFRS 17.

IFRS 9 classification overlay proves popular

A significant majority of insurers have applied the temporary exemption from applying IFRS 9 and will implement IFRS 9 from 1 January 2023 together with IFRS 17.

Of the 32 insurers that did not implement IFRS 9 in 2018, 29 intend to apply the classification overlay for the restatement of IFRS 9 comparatives.

IFRS 9 restatement of comparatives for 2022¹





04

Ongoing IFRS 17 and IFRS 9 reporting

How many insurers expect to apply the **OCI option and what mismatches and volatility** may remain in ongoing reporting?

Where have insurers used the **OCI option** related to insurance liabilities?

What is the impact on **insurance revenue and future earnings** under IFRS 17 and IFRS 9?

What is the **overall impact of IFRS 17 on insurers' KPIs**?

What are **common KPIs across insurance segments** and how are they determined?

How will **L&H (re) insurers** incorporate the CSM in their KPIs?

How will the combined ratio be impacted for **non-life insurers**?



How many insurers expect to apply the OCI option and what mismatches and volatility may remain in ongoing reporting?

Alignment of measurement models and recognition of related gains/losses between IFRS 17 and IFRS 9 reduces accounting mismatches

IFRS 17 allows the disaggregation of insurance finance income and expense between profit or loss and OCI (the 'OCI option'). **Accounting mismatches and volatility** can be significantly mitigated under IFRS 17 and IFRS 9 compared with IFRS 4 and IAS 39. This is partly due to the flexibility of using the OCI option under IFRS 17, which allows alignment with the business model assessment under IFRS 9.

Insurers generally elect to use the OCI option if the majority of financial assets are measured at FVOCI. Alignment can also be achieved by not using the OCI option if measuring the majority of financial assets at FVTPL (either because they are managed on this basis or because the fair value option for accounting mismatches is used under IFRS 9). Under both approaches, (economic) duration mismatches may cause volatility in the statement of comprehensive income, especially where no long-duration assets are available to match long-duration insurance liabilities.

23 insurers indicated that they do not intend to apply the OCI option. For these insurers, potential accounting mismatches arise mainly from:

- assets that are measured at cost or amortised cost (i.e. no fair value remeasurements are recognised in the income statement); and
- mismatches for investments measured outside of IFRS 9 – e.g. owner occupied-properties measured at cost or under the revaluation model.

28 insurers expect to apply the OCI option

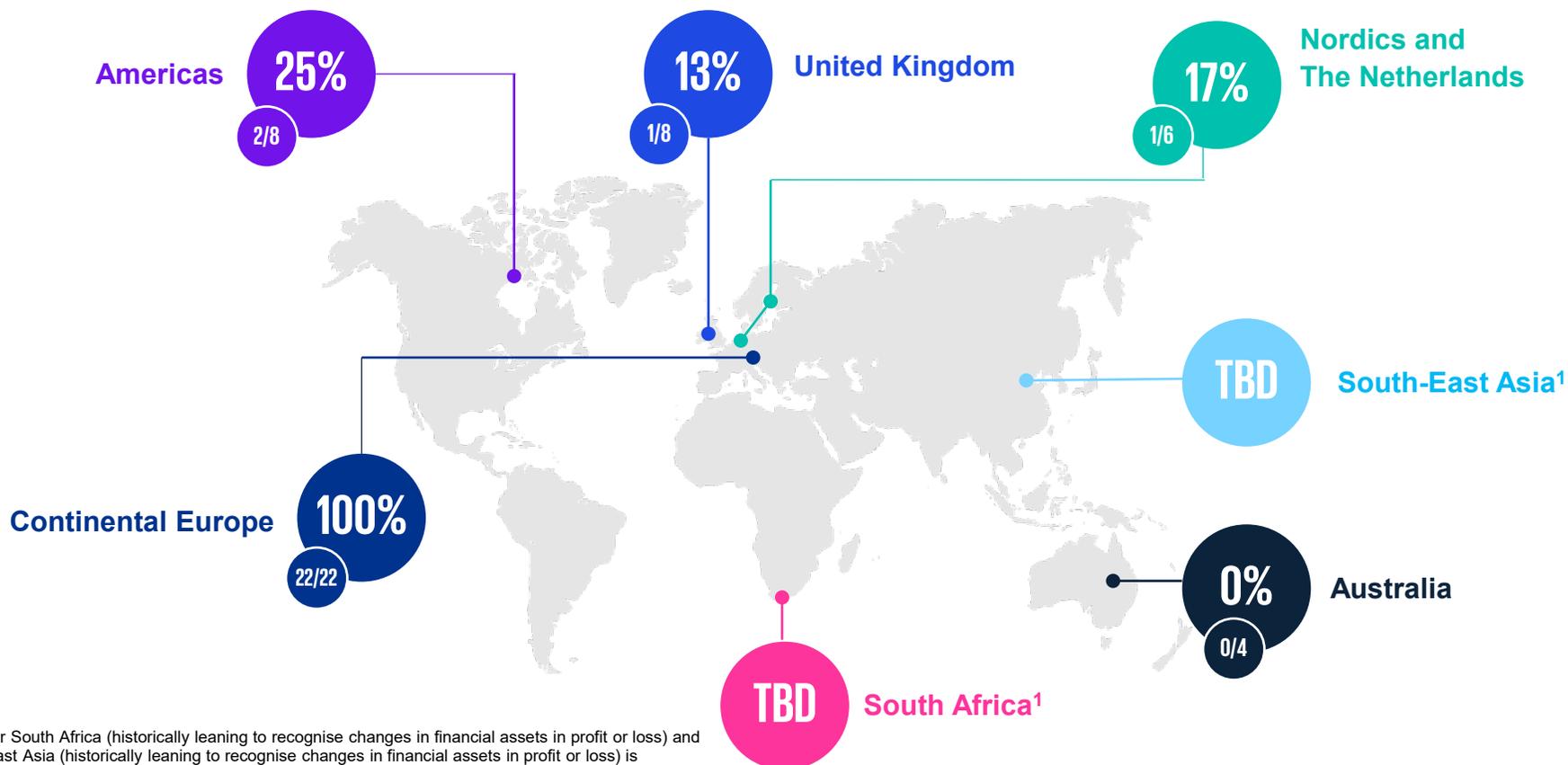
- Choice appears to depend on whether an insurer currently recognises changes in the fair values of financial assets in OCI under IAS 39, which in turn, generally seems linked to **regional** preferences.
- For those that elect to apply the OCI option for insurance liabilities, **volatility** may arise as follows.

Income statement	Equity
<ul style="list-style-type: none"> • Financial assets with cash flows that are not SPPI and equity instruments measured at FVTPL create a mismatch in the income statement when insurance finance income and expense on related insurance liabilities is disaggregated between profit or loss and OCI. • Equity investments measured at FVOCI under IFRS 9 (for which gains or losses on disposal are not recycled through profit or loss) 	<ul style="list-style-type: none"> • Debt instruments at amortised cost
<ul style="list-style-type: none"> • Insurers also expect mismatches to arise from assets under other IFRS Accounting Standards – e.g. owner-occupied properties, investment properties and associates and joint ventures. 	



Where have insurers used the OCI option related to insurance liabilities?

Use of the OCI option for liabilities together with the FVOCI business model for debt instruments largely depends on regional preference



¹ Data for South Africa (historically leaning to recognise changes in financial assets in profit or loss) and South-East Asia (historically leaning to recognise changes in financial assets in profit or loss) is insufficient. The recognition of changes in financial assets may indicate use of the OCI option, but we will provide an update in our benchmarking for 2023 reporting.



What is the impact on insurance revenue and future profitability under IFRS 17 and IFRS 9?

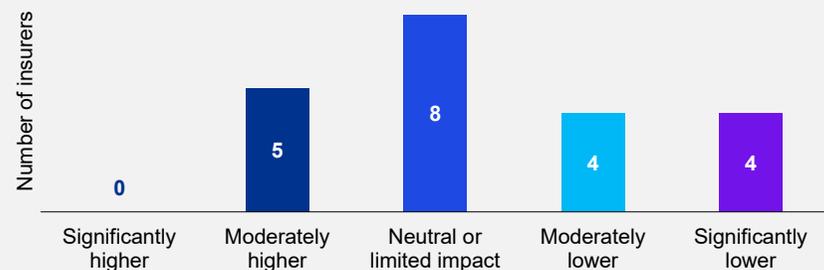
Insurance revenue is expected to significantly decrease for insurers that sell contracts with investment components. Some have provided directional impacts on profitability, but no clear picture yet

Insurance revenue reported under IFRS 4 for L&H and reinsurance contracts (often gross written premiums or earned premiums) is expected to significantly decrease under IFRS 17. This is because of the exclusion of investment components from insurance revenue – e.g. savings elements and some profit commissions.

For non-life contracts, the impact is generally less significant. However, insurers will be required to report insurance revenue rather than gross written premiums, although many will continue to report these as a **KPI**.

The income statement under IFRS 17 will identify an **insurance service result** and a **net financial result** and bring 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. The reporting on expected profitability impact is mainly directional thus far.

21 insurers compare profitability under IFRS 17 with IFRS 4^{1,2}



PAA eligible contracts in non-life insurance (segments)

- Profitability may be more volatile under IFRS 17 because of the effect of discounting. In a relatively high interest-rate environment, this can cause a higher insurance service result, with offsetting effects in insurance finance income and expense.
- Generally, insurers expect that net profits under IFRS 17 are not significantly impacted compared to IFRS 4.

L&H insurance (segments)

- Profitability may be more predictable due to the introduction of the CSM.
- Many insurers expect less volatility in earnings if a large part of the insurance contracts is measured under the VFA. This is because changes in the company's share of underlying items are recognised through the CSM.
- L&H insurers that recognise all or most of their profits on contracts immediately in profit or loss under IFRS 4 indicate that initially, profitability under IFRS 17 will be significantly lower.

1. See also our [December 2022 analysis](#).

2. The impact on future profitability was provided using both results expected under IFRS 17 and KPIs – e.g. operating profit or net income. Therefore, the impacts may not be fully comparable between insurers and are indicative only.



What is the overall impact of IFRS 17 on insurers' KPIs?

Most KPIs are retained, but it is likely to take some time for stakeholders to become familiar with some new and revised KPIs and for them to begin to align across the industry

Insurers report a wide range of KPIs

Under IFRS 4, there is diversity in practice and many insurers have opted to provide alternative performance measures. Their current reporting includes a wide range of KPIs.

Over the years, common metrics used include return on equity, operating profit and embedded value. In many cases, insurers adjust these metrics individually, which reduces comparability.

IFRS 17 and IFRS 9 will bring more consistency in insurers' accounting compared with IFRS 4 and IAS 39 – e.g. a [reduction in accounting mismatches](#) – even though a number of policy choices apply. Generally, insurers intend to report KPIs on:

- growth and sales;
- profitability and distributable reserves; and
- financial stability and value.

Common metrics today		High-level impact of IFRS 17
 Growth and sales	Sales (premiums)	Expected to continue to exist, but some insurers note use of IFRS 17 insurance revenue. Non-life insurers expect to continue reporting gross written premiums
	New business	Expected to be retained, but more use of new CSM recognised, especially in L&H
 Profitability & distributable reserves	Profitability	Use of metrics (e.g. operating profit) expected to continue, but more consistency because based on IFRS 17 and IFRS 9. Combined ratio expected to continue to exist for non-life, but slightly modified.
	Distributable reserves	Largely unimpacted by IFRS 17 and IFRS 9
 Financial stability and value	Solvency / capital ratios	Largely unchanged because usually based on regulatory framework. Some regulators are considering including CSM as capital. Leverage ratio is likely to include CSM. ¹
	Value	Expected to be retained, but some indicate moving towards a so-called 'comprehensive equity' (equity plus (net) CSM) or similar metric



What are common KPIs across insurance segments and how are they determined?

Insurers disclose familiar KPIs, but have updated some of their calculation methodologies to reflect IFRS 17 and IFRS 9 impacts

The following are examples of key metrics that insurers expect to continue to report. They expect IFRS 17 and IFRS 9 to feature more prominently when calculating these metrics. In a number of cases, insurers indicated their calculation methodology and whether they expect KPIs to increase or decrease.

Return on equity

Profit for the year

Average shareholders' equity during the year

- Some insurers intend to use an adjusted operating profit measure for the numerator, instead of unadjusted profit after tax for the year¹.
- Similarly for the denominator, some will use an unadjusted shareholders' equity¹; others aim to adjust it – e.g. 'comprehensive equity' calculated as equity plus CSM (mostly after tax).
- Some L&H and composite insurers in the Americas and Europe expect to increase targets for return on equity because they anticipate a reduction in shareholders' equity on 1 January 2022 that is relatively higher than any expected decrease in profit.

Leverage ratio

Debt

Debt + Shareholders' equity + CSM

- Compared to the current calculation methodology, many insurers expect to add the CSM to the denominator
- Shareholders' equity plus CSM under IFRS 17 will generally be higher than shareholders' equity under IFRS 4. This is expected to cause leverage ratios to decrease.
- Rating agencies do not expect material changes in credit ratings because they do not anticipate insurers' underlying businesses to change.

Operating profit

Profit¹ adjusted for specific items

- Some insurers expect to continue using metrics (e.g. operating profit, underlying earnings or net income). However, these will be based on the insurance result and net financial result under IFRS 17. Insurers currently use differing reporting bases under IFRS 4.
- Insurers indicated common adjustments they expect to make to profit, including:
 - stabilising investment returns (i.e. applying a constant investment return in the adjusted profit measure);
 - foreign currency impacts;
 - impairments;
 - specific expenses (e.g. restructuring costs); and
 - exceptional items.

¹ Calculated under IFRS Accounting Standards.



How will L&H (re)insurers incorporate the CSM in their KPIs?

CSM is expected to play significant role in new KPIs for reporting on the value of new business in the period and total business value reporting

The CSM represents the deferred profit of insurance contracts recognised. It can be used in various KPIs – e.g. the **value of new business** and **total business value reporting**.

Value of new business (VNB)

- Used by L&H insurers as a KPI.
- Most L&H insurers expect to use the CSM under IFRS 17 when reporting their VNB to stakeholders.
- Some L&H insurers indicated that they will report:
 - the CSM related to contracts initially recognised in the period under IFRS 17 without adjustment; or
 - the growth in the (net) CSM balance as one of their new metrics.
- Some may continue reporting the VNB under the embedded value (EV) framework for some time, especially in Asia. These insurers noted that they prefer consistency in new business reporting compared with what they reported in previous years.
- Those insurers that provided information on 2022 comparatives have also started comparing the CSM from newly issued contracts in the period with the CSM release for the period as an indicator for growth.

Total business value

- Often reported by L&H insurers on a regulatory basis (e.g. Solvency II) or on an EV equity basis.
- Some L&H insurers now aim to report a **comprehensive equity** metric (i.e. **shareholders' equity** plus **CSM** (after tax)) or a similar KPI.
- They believe this will provide a better indication of the total business value than under IFRS 4, because:
 - the **CSM** determined under IFRS 17 will provide insight on the expected future profits of existing contracts; and
 - **shareholders' equity** will become a more meaningful number – i.e. it is determined using accounting policies that are consistent under IFRS 17 and it is less affected by accounting mismatches between financial assets under IFRS 9 and insurance liabilities under IFRS 17.
- Not expected to reflect a full market value – e.g. comprehensive equity (similar to EV equity) would exclude the value of future policies an L&H insurer may sell.



How will the combined ratio be impacted for non-life insurers?

The impact on the combined ratio differs and largely depends on the (revised) calculation methodology under IFRS 17

Calculating the combined ratio under IFRS 17

The combined ratio consists of a claims/loss ratio and an expense ratio. Some reinsurers split the claims/loss ratio into major losses and other losses. In its most basic form, the combined ratio under IFRS 17 can be calculated as follows.

$$\frac{\text{Insurance service expenses}}{\text{Insurance revenue}}$$

Non-life insurers indicated a number of approaches for presenting combined ratios, including that some intend to:

- use only **directly attributable expenses** that are presented as insurance service expenses under IFRS 17;
- include certain **other operating expenses** that are reported outside the insurance service result; and
- include the **reinsurance result**¹ in the combined ratio or calculate the ratio in its basic form (as above, excluding the reinsurance result).

¹ Reinsurance result refers to the net expenses from reinsurance contracts under IFRS 17.

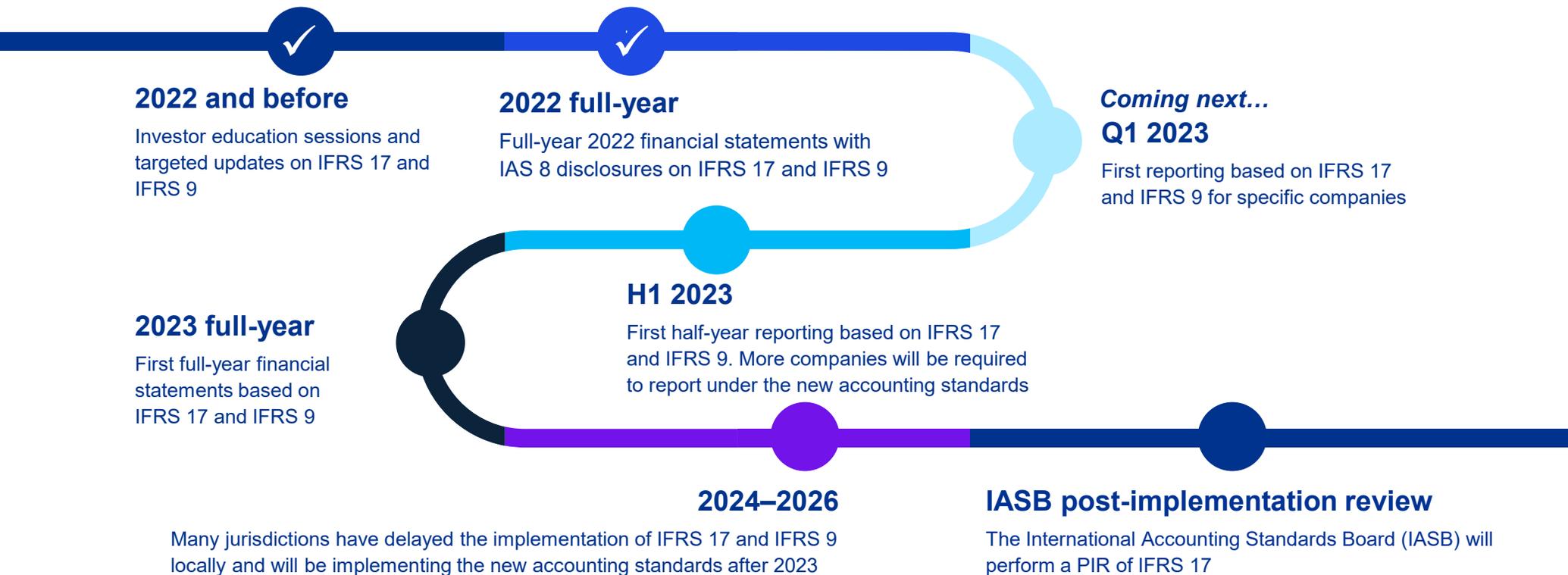
Differences reported in the combined ratio – IFRS 4 vs IFRS 17

- Insurers expect combined ratios based on directly attributable expenses to be lower under IFRS 17. This is because generally fewer expenses are included than under IFRS 4.
- If the reinsurance result was not included previously under IFRS 4, but it is under IFRS 17, then the combined ratio may increase or decrease depending on this reinsurance result.
- Changes in discount rates may cause volatility in the combined ratio and the insurance service result. This is because discounting insurance liabilities lowers the expense ratio and, therefore, the combined ratio. This decrease will be offset in insurance finance income and expenses.
- The combined ratio may increase due to increases in the expense ratio from recognising losses on onerous contracts immediately. However, most insurers report that onerous contracts are not significant.
- Some reinsurers have identified certain commissions that qualify as investment components under IFRS 17 and, therefore, need to be deducted from insurance revenue (denominator). There will be an equal decrease in insurance service expenses (numerator) because these commissions are now excluded. The combined ratio is expected to decrease as a result as long as the ratio is below 100%.



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.





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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](#)

[Appendix B - What coverage units are expected to be used for releasing CSM?](#)



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	APAC
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
Caixiabank	Bancassurance	Europe
Grupo Catalana Occidente	Non-life (Credit)	Europe
China Life Insurance (Group)	Life and Health	APAC
China Reinsurance (Group) Corporation	Reinsurance	APAC
CNP Assurances	Life and Health	Europe
Coface	Non-life (Credit)	Europe
Credit Agricole	Bancassurance	Europe
Direct Line Insurance Group	Non-life	Europe
Deutsche Zentral-Genossenschaftsbank (DZ Bank)	Bancassurance	Europe
Gjensidige Forsikring	Composite	Europe
Great West Life	Life and Health	Americas
Hannover Ruck (Hannover Re)	Reinsurance	Europe

Company	Segment	Domicile
Helia	Non-life (Credit)	APAC
Helvetia Group	Composite	Europe
Hiscox	Non-life	Americas
HSBC	Bancassurance	Europe
IA Financial Corporation	Composite	Americas
Intact Financial	Non-life	Americas
Intesa Sanpaolo	Bancassurance	Europe
KBC Group	Bancassurance	Europe
Lancashire	Non-life	Americas
Lloyds Banking Group	Bancassurance	Europe
Legal and General	Life and Health	Europe
M&G	Life and Health	Europe
Manulife Financial	Life and Health	Americas
Mapfre	Composite	Europe
Münchener Rückversicherungs-Gesellschaft (Munich Re)	Reinsurance	Europe
NN Group	Composite	Europe
Old Mutual	Life and Health	Africa
The People's Insurance Company (Group) of China	Composite	APAC
Phoenix Group	Life and Health	Europe
Ping An Insurance (Group) Company of China	Composite	APAC
Prudential	Life and Health	Europe
QBE Insurance Group	Composite	APAC
Sampo	Composite	Europe
Samsung Life Insurance Co	Life and Health	APAC



Appendix A – Company selection (cont'd)

Company	Segment	Domicile
Sanlam Limited	Composite	Africa
SCOR	Reinsurance	Europe
Storebrand	Life and Health	Europe
SunLife Financial	Life and Health	Americas
Talanx	Composite	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 book year ending on 30 June. Therefore, the first application of IFRS 17 and IFRS 9 will be the book year starting 1 July 2023 and they are not included in the list above. 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 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 31 March 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'.



Appendix B – What coverage units are expected to be used for releasing CSM?

Product description	Coverage units expected to be used by insurers
Life savings	
Traditional life savings	Insurance services <ul style="list-style-type: none"> Net amount at risk, sum assured Investment services <ul style="list-style-type: none"> Assets under management, account value Combined <ul style="list-style-type: none"> Expected amounts payable at maturity, including the accumulated profit participation
With-profit contracts with reversionary bonuses	Maximum of guaranteed death benefit and asset share
Unit-linked	Insurance services <ul style="list-style-type: none"> Net amount at risk Investment services <ul style="list-style-type: none"> Assets under management, account value Combined <ul style="list-style-type: none"> Annual management charge plus insurance charges Higher of account value or sum assured
Universal life contracts with participation in underlying items	Higher of the projected sum assured and underlying items (policyholder account balance)
Investment contracts with discretionary participating features	Underlying items/account balance
Protection	
Term life	Sum assured
Endowment	Sum assured
Whole of life	Sum assured
Group protection	Sum assured

Product description	Coverage units expected to be used by insurers
Protection (cont'd)	
Income protection	<ul style="list-style-type: none"> Benefits payable (death or where disability event is identified as becoming sick or disabled) Estimated regular payments (where the disability event is defined as 'becoming sick or disabled and continuing to be')
Critical illness	Maximum amount payable (including any premiums waived) on detection of critical illness
Waiver of premium	<ul style="list-style-type: none"> Waived premiums on inception of claim (where the disability event is defined as 'becoming sick or disabled') Projected waived premium (where the disability event is defined as 'becoming sick or disabled and continuing to be')
Annuities and other	
Immediate annuities	Annuity payments in the period
Deferred annuities	<ul style="list-style-type: none"> Expected investment return on the assets (investment-return service in deferral phase) Sum assured (if any, lump sum death benefits in the deferral phase) Expected annual payments (payment phase)
Longevity swaps	Expected floating leg payments in the period
Funeral	Sum insured per death reached in each period
Mortgage insurance	Outstanding loan balance adjusted by severity factors, informed by past experience
Non-life insurance	Maximum coverage during the period
Multi-service contracts	Weighting of coverage units for different services



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