IFRS 17 insurance reporting

Wednesday, 1 November 2023

KPMG Indonesia Board Governance Forum

01

What do you need to know about PSAK 74

PSAK 74: New accounting concepts

PSAK 74 intends to enhance comparability between companies, to increase disclosures so movements are clearly understood, and to recognize profits in line with service provision. However, this will increase the complexity of insurance IFRS reporting significantly.

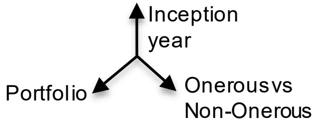
1 Level of Aggregation

- New recognition rules will apply based on specific requirements and approaches, significantly increasing data requirements on the financial systems from today
- The new rules also have an impact on profitability as onerous contract losses will be immediately recognized

Onerous Contract test

Onerous Contract	Risk of being Onerous Contract	Non-Onerous Contract
Loss recognized immediately in P&L	*Based on likelihood of assumption changes/ internal reporting*	CSM recognized as part of liability for remaining coverage

Minimum Level of Aggregation



Reinsurance/insurance and acquired business to be modelled separately

2 Measurement Model

- The standard will introduce three measurement models: General Measurement Model (**GMM**), the Premium Allocation Approach (**PAA**), and the Variable Fee Approach (**VFA**)*

* *VFA is usually applicable for direct participating contracts with significant investment related service (i.e. Unit Linked products)*

	GMM	PAA	VFA
Liability for remaining coverage (Unearned business)	CSM Risk adjustment Discounting Best estimate of cash flows	Unearned premium reserve (less acquisition costs)	Underlying items related to policyholder participation Obligation to policyholder
Liability for incurred and IBNR claims (Earned claims Reserve)	Risk adjustment Discounting Best estimate of cash flows	Risk adjustment Discounting Best estimate of cash flows	Fee for service

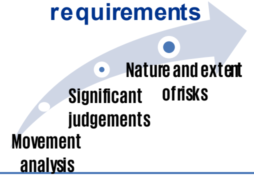
3 Presentation and Disclosures

- IFRS 17 requirements include a significant number of new disclosures that will make actuarial modelling will be more relevant to the financial statements and will impact accounting data flows from source to ledger

New disclosures

- New P&L format (Premium income is replaced by Insurance contract revenue)
- Movement analysis form opening to closing balance for components of insurance liability

Other disclosure requirements



What does this mean for insurers?

Fundamentally different accounting model

Significantly increased disclosures

Different profit profiles, recognition of losses & revenue presentation

Pervasive and significant impact

Process, IT systems and data

Internal and external reporting

Resources and staffing

KPIs

Investment portfolio management

Product pricing and development

The impact is more than compliance

Are you ready for PSAK 71?

- **PSAK 74 and PSAK 71 have different requirements on transition**
- **Both at and after transition new accounting mismatches may arise, which you may need to identify and explain**
- **To reduce these accounting mismatches on transition, for financial asset comparative information, you may choose to:**
  - **restate comparative information;**
  - **apply a classification overlay approach; or**
  - **not restate comparative information**
- **Updated transition disclosures will be required in periods following transition for contract to which the modified retrospective or fair value approach was applied.**

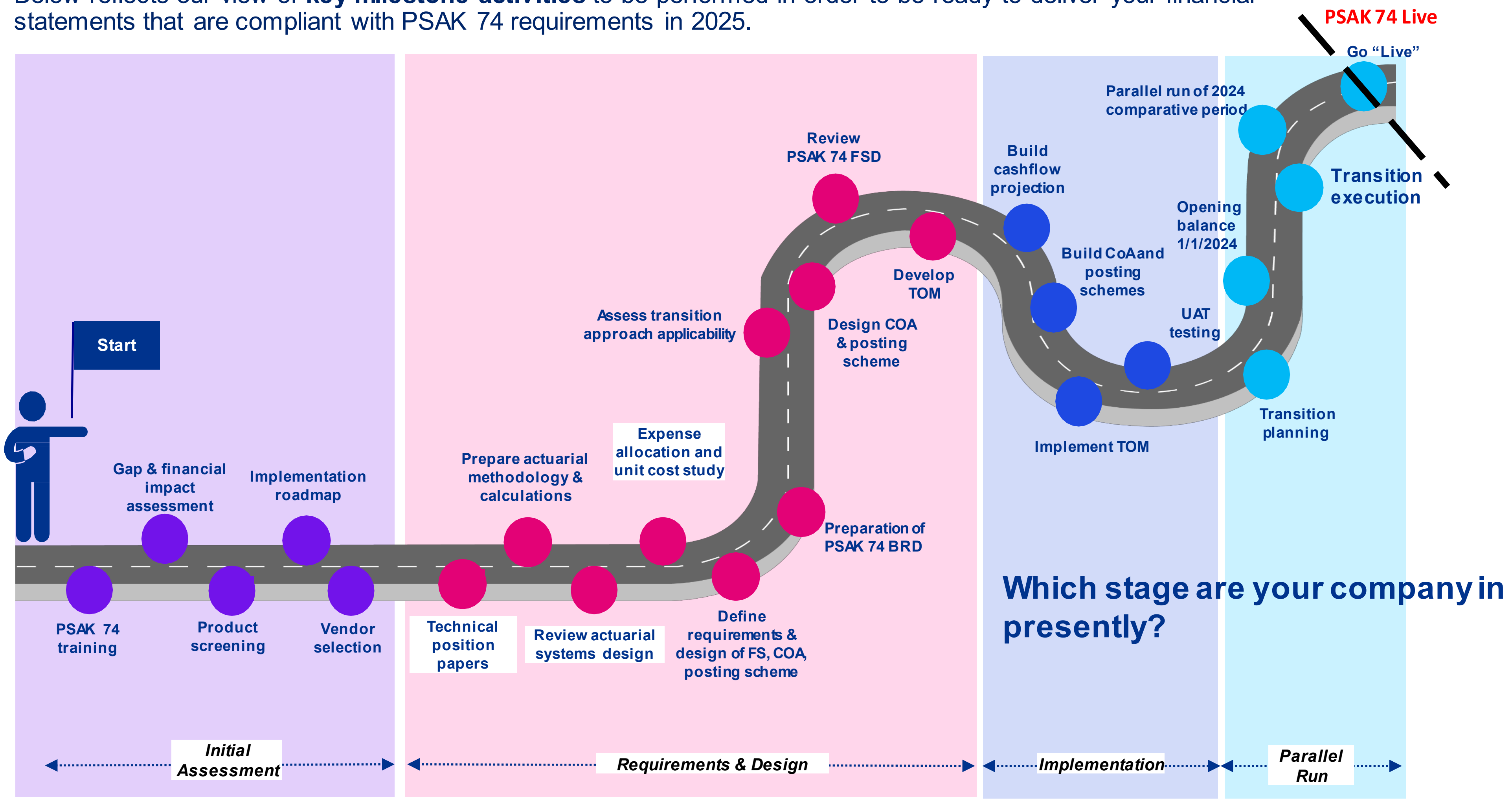
Applicable standards – Assuming 1 January 2025 as the date of initial application

	FY 2024		FY 2025		Equity adjustment
	2024	2023	2025	2024	
Insurance contracts	PSAK 62[1]	PSAK 62	PSAK 74	PSAK 74	1 January 2024
Financial assets/ liabilities	PSAK 55[2]	PSAK 55	PSAK 71	PSAK 55 or PSAK 71	1 January 2024 and/or 2025
Transition disclosures	PSAK 25[3]		PSAK 60[4], PSAK74 and PSAK 25		

1. PSAK 62 Insurance Contract
2. PSAK 55 Financial Instrument: Recognition and Measurement
3. Pre-transition disclosures under PSAK 25 Accounting Policies, Change in Accounting Estimates and Errors
4. PSAK 60 Financial Instrument: Disclosures

Typical PSAK 74 journey would look like

Below reflects our view of **key milestone activities** to be performed in order to be ready to deliver your financial statements that are compliant with PSAK 74 requirements in 2025.



Which stage are your company in presently?

What is it needed to make PSAK 74 operational

Future financial reporting architecture needs to integrate

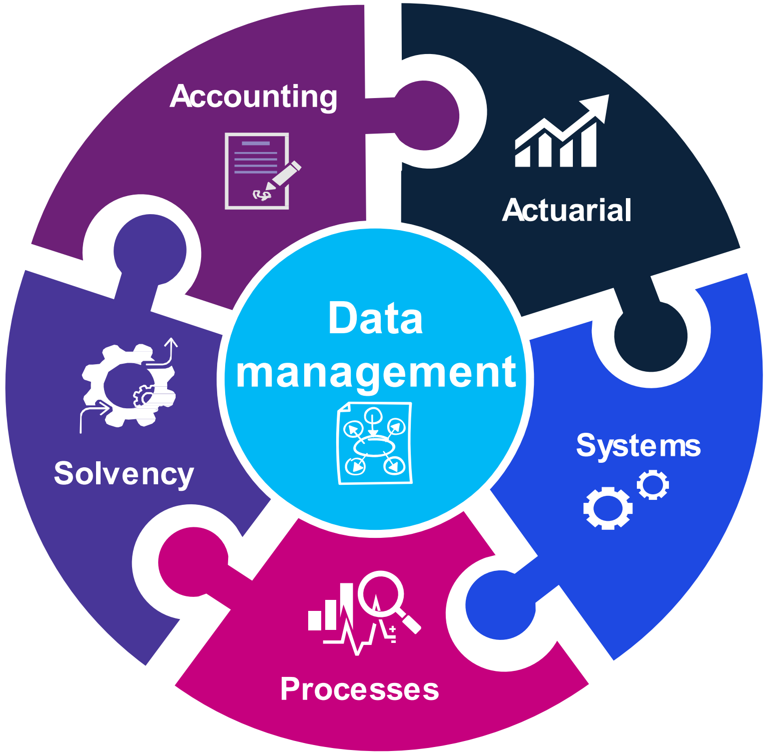
PSAK 74 brings new data requirements and issues:

— Greater data granularity & volume of additional information

— New methodologies/rules

— Different allocations

— Data availability from feeder systems



— **Major part** of the transformation journey

— **Drives** detailed **design and planning**

— **Integrates** all aspects of **implementation**

— Influences **decisions**, e.g. transition

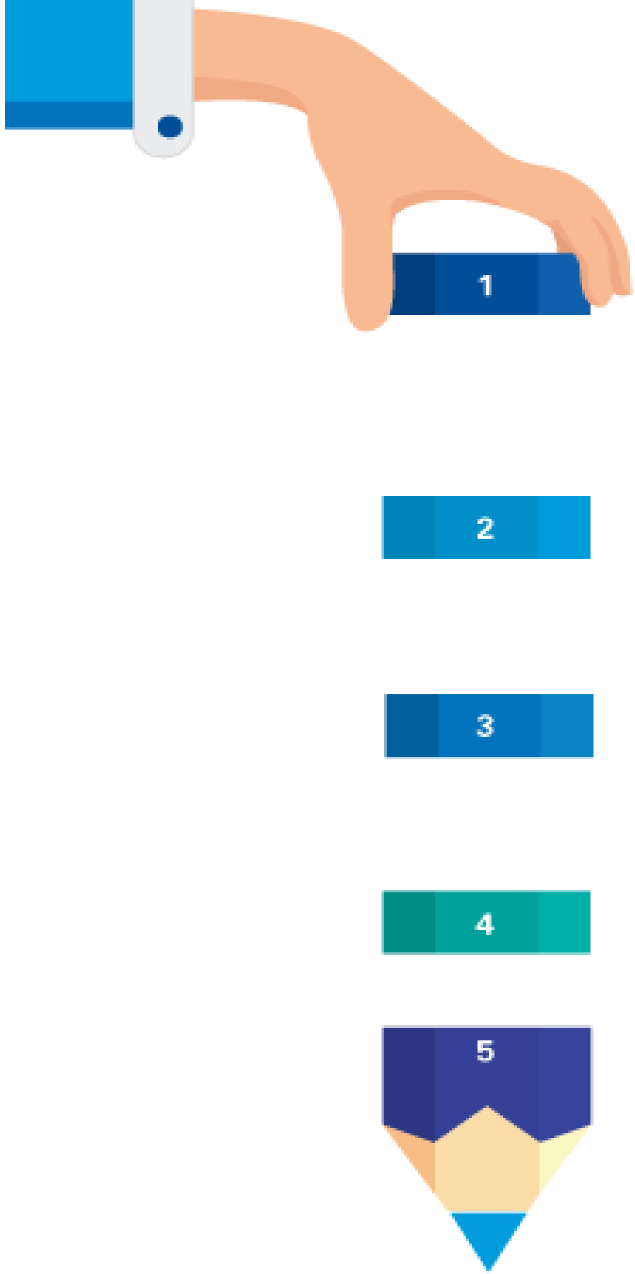
— Structure and design can impact **future operating model**

DATA … at the core of implementation

Practical issue in implementation

- Limitation in existing general ledger system to support implementation, i.e. multi-ledger and COA
- Actual modelling needs big improvement
- Inconsistency in accounting recording, i.e. late posting and expense categorization
- Challenges to provide granular data to support certain assumptions and actual data
- Insufficient time and lack of PSAK 74 strong knowledge to do proper system testing
- Challenges in interpreting results and mix understanding between PSAK and Statutory numbers
- Capacity and capability of internal resources (actuarial, accounting, IT, PMO)
- Interaction of different actuarial, risk, and accounting processes

Key to success in PSAK 74 implementation



Align actuarial and accounting – Use the extra time to better align your data between your actuarial models and accounting systems

Focus on CSM solution – use the time to validate, integrate and enhance the CSM engine to a satisfactory level

Assess how to enhance the chart of accounts – spend time to provide the necessary analysis, control and reporting outputs across reporting metrics

Understand the critical path of end to end reporting – understand the changes in the close process and what, if anything, can be addressed off-cycle to properly understand the results - especially in the early years

Understand the changes to business planning, forecasting and management information processes

02

Global insurers' half-year reporting under IFRS 17 and IFRS 9

What did we look at?

We have analysed the first half-year reports of **64 insurers** prepared under IAS 34 *Interim Reporting.* Our analysis focused on the following.

IFRS 17 disclosures

We share our key observations on the disclosures under IFRS 17 *Insurance Contracts* and their comparatives. In particular, we analysed disclosures under IFRS 17 on:

- the discount rates applied;
- confidence levels; and
- expected contractual service margin (CSM) release

Key performance indicators (KPIs)

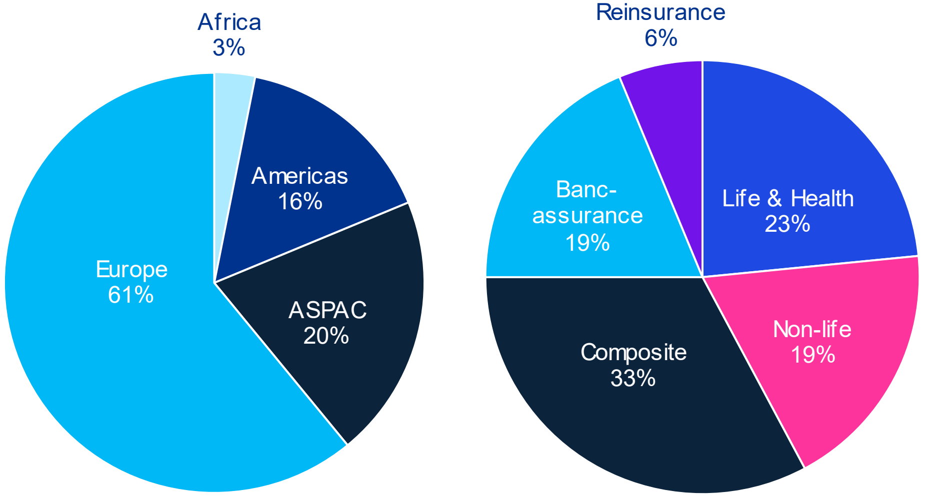
We also share our key observations on the KPIs reported by the 64 insurers.

Other focus areas

These include an update to our previous analysis on:

- insurers' IFRS 17 and IFRS 9 accounting policies and significant judgements; and
- the impact to opening equity from the adoption of IFRS 17 and IFRS 9.

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



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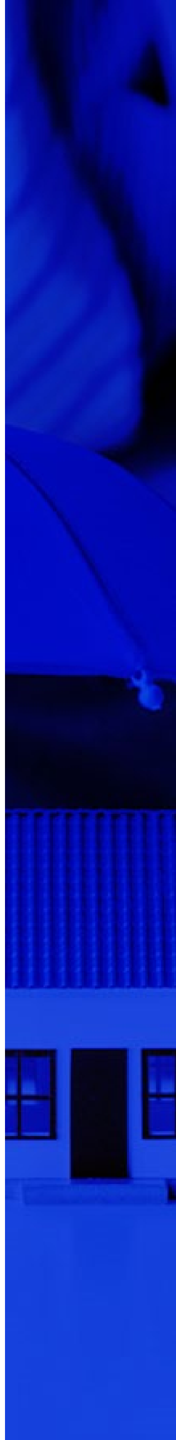


IFRS 17 disclosures – Key observations

Significant variation in disclosures that explain recognised amounts and transition amounts under IFRS 17

Insurers are not specifically required to include the disclosures listed in IFRS 17 in their interim reports under IAS 34; they need to apply judgement. However, these disclosures can provide valuable insight into, and understanding of, the line items presented in the income statement and balance sheet. Our key observations include the following.

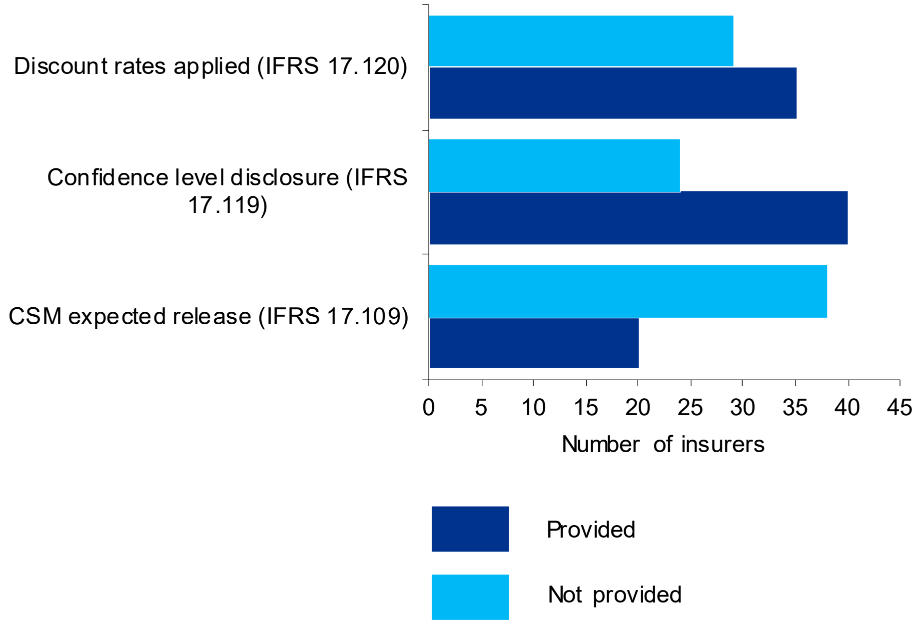
- **33** insurers provided **roll-forward disclosures** explaining the movement in LRC, LIC, PVFCF, CSM and RA[1].
- **34** insurers presented the **reinsurance result** on a net basis in the income statement.
- All of the insurers presented **restated comparatives** for their primary statements. These comparatives are as at 31 December 2022 for the balance sheet and for the six months ended 30 June 2022 for the income statement. The comparative periods for the note disclosures differed between insurers.
- All of the insurers restated for IFRS 17 but only **33** insurers did so for IFRS 9 *Financial Instruments*.
- The level of aggregation for the disclosures differed by insurer. Some provided disclosures for the reporting entity only; others provided them by line of business and/or geographical area.

Appendix D includes a detailed overview of the disclosures provided by the insurers in our sample.

[1] Liability for remaining coverage (LRC); liability for incurred claims (LIC); present value of future cash flows (PVFCF); contractual service margin (CSM); risk adjustment for non-financial risk (RA).

Some of the key disclosures provided by the insurers in our sample are as follows. We include our observations in the following slides.

Key IFRS 17 disclosures



IFRS 17 disclosures – Disclosures on discount rates (USD)

Significant differences between highest and lowest observed yield curves applied to discount insurance liabilities

35 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.

The disclosures on how the discount rate has been determined vary widely. Only some insurers provided insight on:

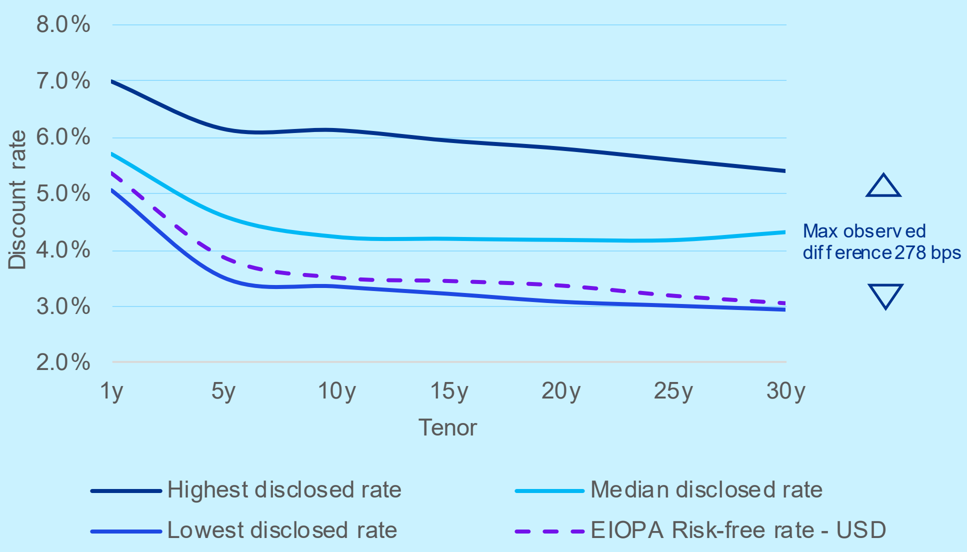
- the last liquid point for which they used observable market data;
- the methodology for determining the illiquidity premium; and
- how they have interpolated and extrapolated discount rates to the ultimate forward rate.

These disclosures aid understanding of the yield curves applied. Other insurers gave little detail on the methodology used and, in some cases, provided no disclosure on the yield curves applied.

21 insurers disclosed a USD yield curve.

The diagram is for illustrative purposes only and shows the highest, lowest and median of illiquid rates[1] disclosed. For the USD, the biggest difference between the highest and lowest observed rate in the yield curves disclosed by the 21 insurers is 278 basis points (bps) for the 10-year rate. USD discount rates, as disclosed by insurers in the Americas and ASPAC, are generally higher than rates disclosed by insurers in Europe. Only a few insurers disclosed an USD ultimate forward rate varying between 4.4% and 5%.

USD discount rates disclosed at 30 June 2023[1,2,3]



1 Some insurers have disclosed multiple yield curves for different countries or products. The diagram reflects observations based on 32 different yield curves from the 21 insurers that disclosed a USD yield curve.

2 The highest and lowest rates, and the median of disclosed rates, do not necessarily represent the yield curve of a specific insurer. The yield curve shown reflects the highest/median/lowest observed rate for the year. We have interpolated any missing data through a simple average of the two nearest data points. The highest, median or lowest observations for 15y and 25y are based on this interpolated calculation. Therefore, this chart is for illustrative purposes only.

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

IFRS 17 disclosures – Disclosures on discount rates (EUR)

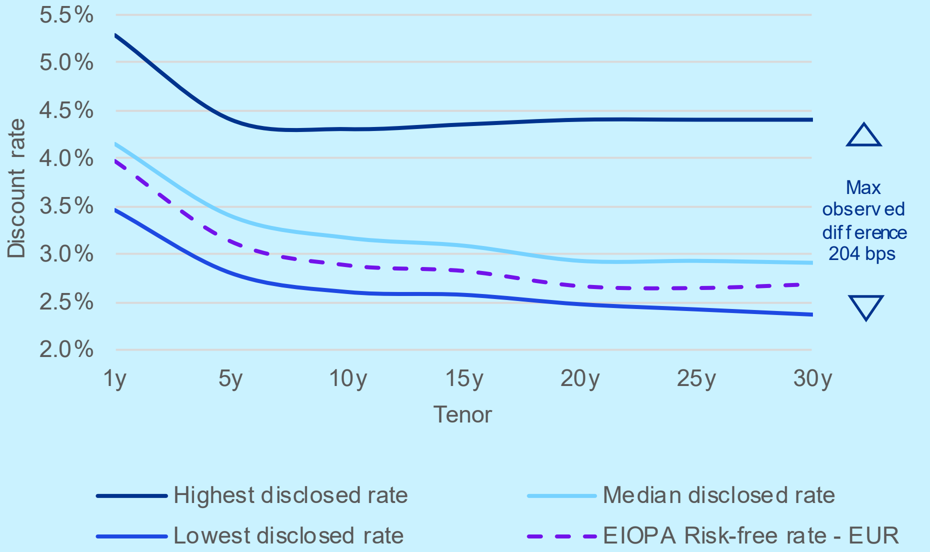
Significant differences between highest and lowest observed yield curves applied to discount insurance liabilities

24 insurers disclosed a EUR yield curve. The diagram is for illustrative purposes only and shows the highest, lowest and median of illiquid rates[1] disclosed.

For the EUR, the biggest difference between the highest and lowest observed rate in the yield curves disclosed by the 24 insurers is 204 bps for the 30-year rate.

Only **1** insurer disclosed an EUR ultimate forward rate, which was 3.45%.

EUR discount rates disclosed at 30 June 2023[1,2,3]



1 Some insurers have disclosed a multiple yield curves for different countries or products. The diagram reflects observations based on 46 different yield curves from the 24 insurers that disclosed a EUR yield curve.

2 The highest and lowest rates, and the median of disclosed rates, do not necessarily represent the yield curve of a specific insurer. The yield curve shown reflects the highest/median/lowest observed rate for the year. We have interpolated any missing data through a simple average of the two nearest data points. The highest, median or lowest observations for 15y and 25y are based on this interpolated calculation. Therefore, this chart is for illustrative purposes only.

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

IFRS 17 disclosures – Confidence levels

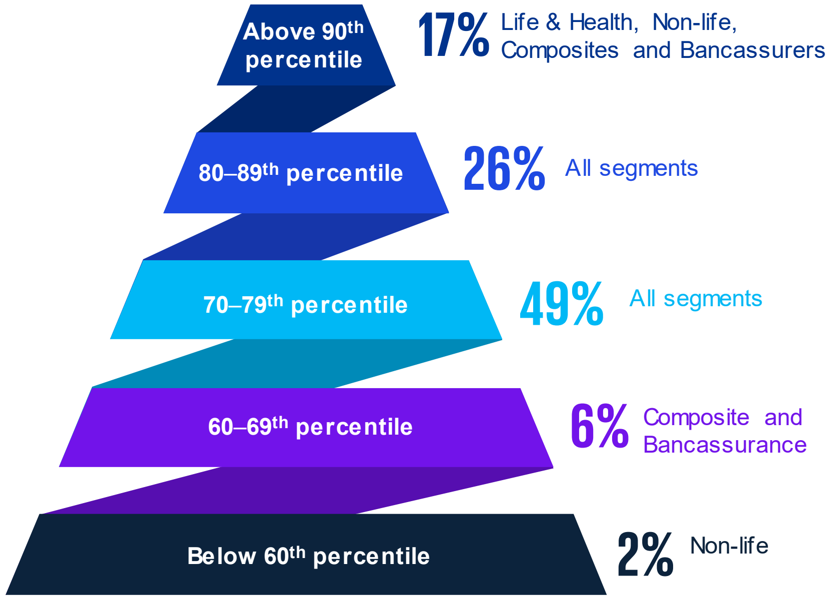
New disclosures under IFRS 17 on confidence levels for the risk adjustment help users to compare insurers' performance

37 insurers disclosed the confidence level used to determine the RA.

24 insurers used a technique other than the confidence level technique to determine the RA. **20** of those insurers disclosed the confidence level corresponding to the results of that technique.

5 insurers stated that the confidence level disclosed is based only on a 1-year calibration rather than a confidence level that reflects the confidence that an insurer would have in fulfilling all of its remaining obligations. One insurer that disclosed both bases showed an impact of a 10–20% decrease in the confidence level on an ultimate view basis compared with the 1-year view. Due to the potentially significant difference between a 1-year and an ultimate view, these **5** insurers have been excluded from the comparison in the diagram.

Percentage of insurers by disclosed confidence level[1]



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

IFRS 17 disclosures – Expected CSM release

Disclosing expected CSM recognition in profit or loss in HY reporting is more common in the Americas compared with other regions

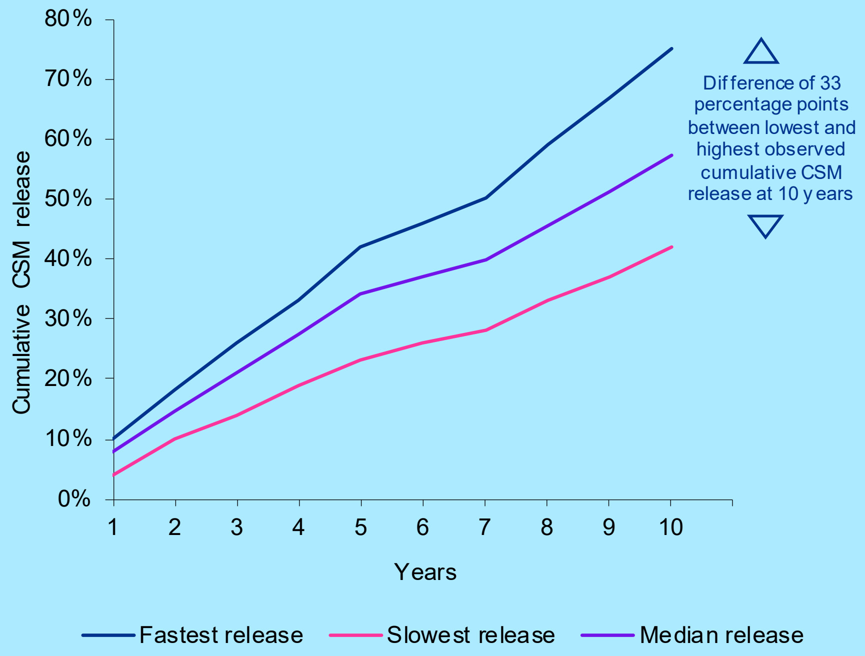
20 insurers applying the general measurement model (GMM) or variable fee approach (VFA) disclosed the **amounts of CSM expected to be recognised in profit or loss across future years**. The disclosure is relatively more common in the **Americas** compared with other parts of the world. Some insurers have detailed the expected CSM release by segment or location for both insurance contracts issued and reinsurance contracts held.

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

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

In the diagram, we have normalised the time bands to illustrate the insurers' highest, lowest and the median expected CSM recognition for the first 10 years. Note that the 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 30 June 2023



[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.

IFRS 17 disclosures – Restated HY and FY net profit

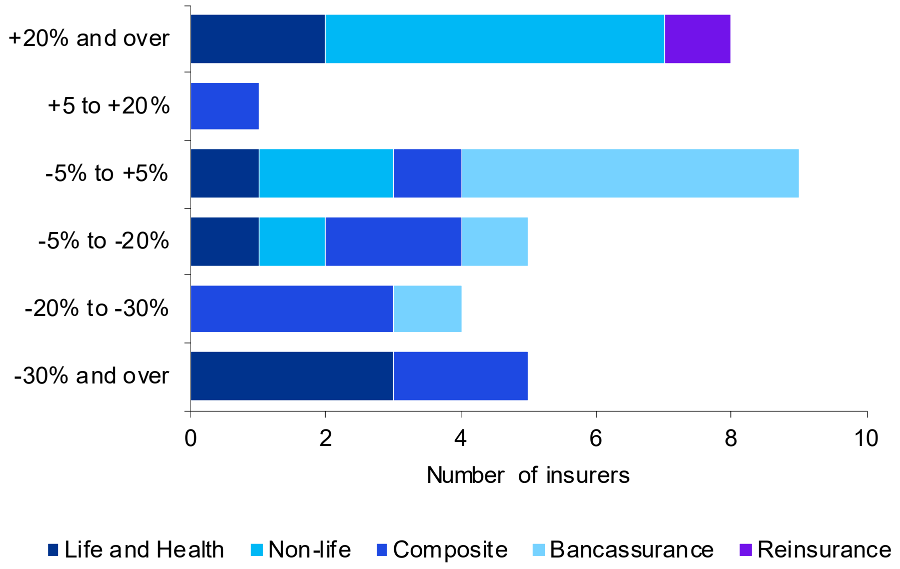
Insurers' HY reporting shows a wide-ranging impact on net profit from adopting IFRS 17 and IFRS 9

The impact of IFRS 17 and IFRS 9 on FY 2022 net profit varied between those insurers analysed that provided FY 2022 restated information, 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 current 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 their 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.

Impact of IFRS 17 and IFRS 9 on 36 insurers' FY 2022 net profit



Key performance indicators – New business metrics

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

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

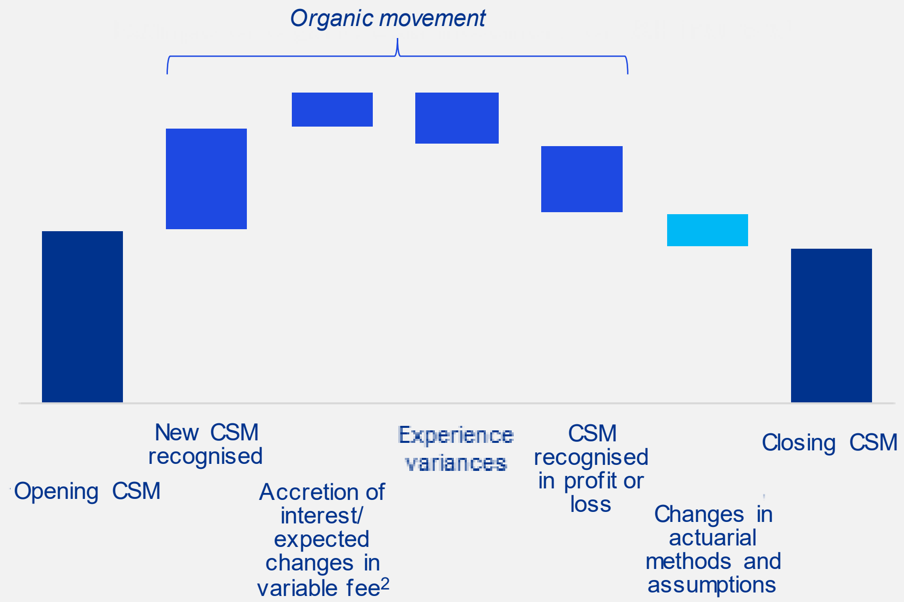
- **30** insurers used the **CSM initially recognised** in the period. Some group new CSM with new RA to present 'deferred profit' or make certain adjustments – e.g. adjustments for reinsurance or non-directly attributable expenses.
- **8** insurers continued with an **embedded value basis**, which is especially prevalent for insurers with significant sales volumes in Asia.
- **39** insurers continued reporting a **non-GAAP volume metric** – e.g. annualised premiums and sales with no adjustments for IFRS 17.

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

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

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

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



1 Certain movements can be positive or negative. The chart is provided for illustrative purposes only.

2 Only for VFA contracts.

Key performance indicators – Profitability metrics

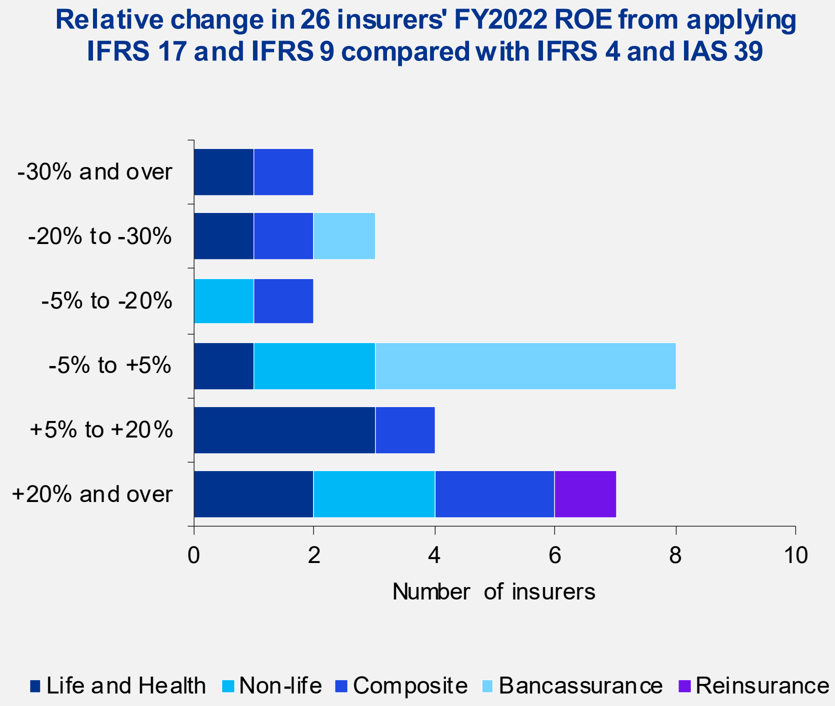
Profitability metric calculations are typically updated to reflect an IFRS 17/IFRS 9 basis

All insurers

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

What KPIs were reported and what's the impact?

- ***Return on equity (ROE):*** Typically higher under IFRS 17 and IFRS 9 compared with IFRS 4 and IAS 39 *Financial Instruments: Recognition and Measurement,* and driven by decreased equity. Many insurers are adjusting their targets.
- ***Earnings per share (EPS):*** The impact varies. From a population of 26 insurers that disclosed the FY 2022 EPS on an IFRS 17 basis, more than half showed decreases.
- ***Operating profit after tax (OPAT):*** Calculation of OPAT (or similar metrics) differs between insurers. All start with profit under IFRS Accounting Standards but then make different adjustments. As yet, insurers have provided little information on what (if any) changes have been implemented in the calculation of OPAT due to adopting IFRS 17 and IFRS 9.



Key performance indicators – Profitability metrics (cont.)

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

Non-life insurers

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

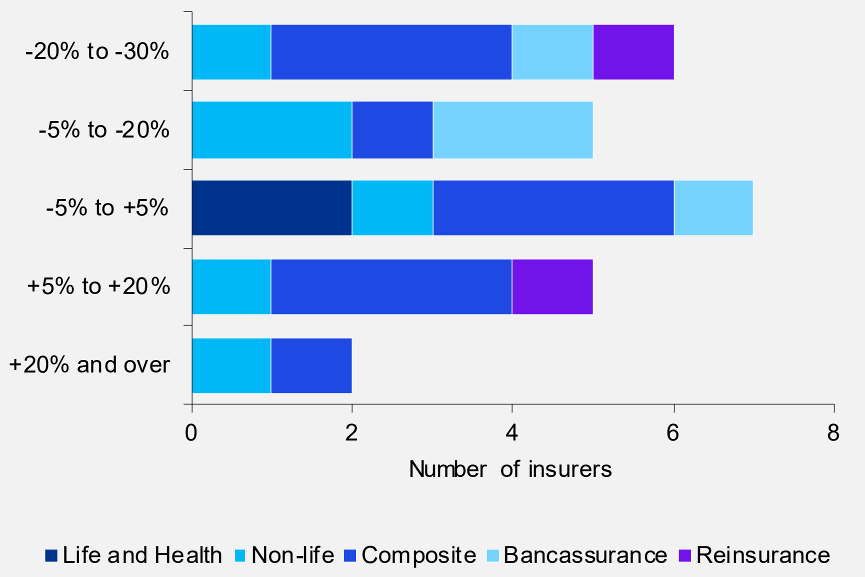
What KPIs were reported and what's the impact?

Many insurers reported the **combined ratio.** The impact 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. Some insurers also provided an undiscounted combined ratio. The ratio may become more volatile in response to changes in interest rates.
- ***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:*** This has caused decreases in the combined ratio for some insurers, somewhat offset by the exclusion of investment components from insurance service expense.

Appendix E includes further detail on the differences in calculation methodology for the combined ratio.

Relative change in 25 insurers' FY 2022 combined ratios from applying IFRS 17



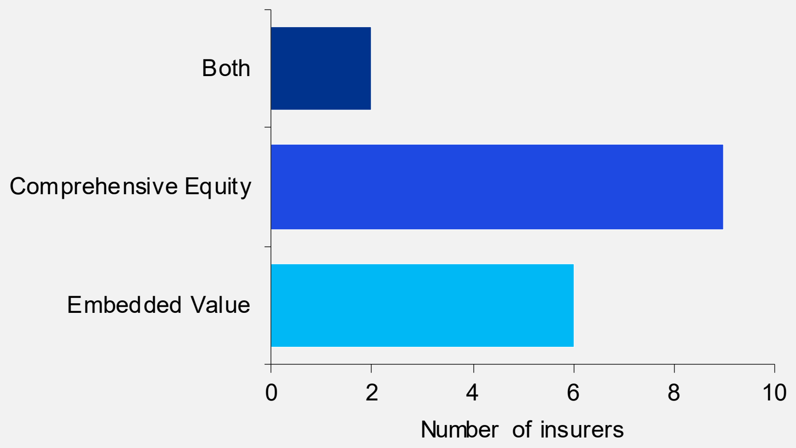
Key performance indicators – Value metrics

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

9 insurers in our sample 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'.

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

Value measure reported in HY 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.

A comprehensive equity metric appears to be a good starting point for a business value metric. However, it may not incorporate the value of all parts of the business – e.g. it may exclude contracts under the premium allocation approach (PAA) that have no CSM or non-IFRS 17 value generating business (such as investment contracts under IFRS 9).

Therefore, some insurers adjusted 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 sample often did not provide the exact assumptions underlying these adjustments.

24 insurers indicated they will report 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).

Key performance indicators – Life and Health metrics

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

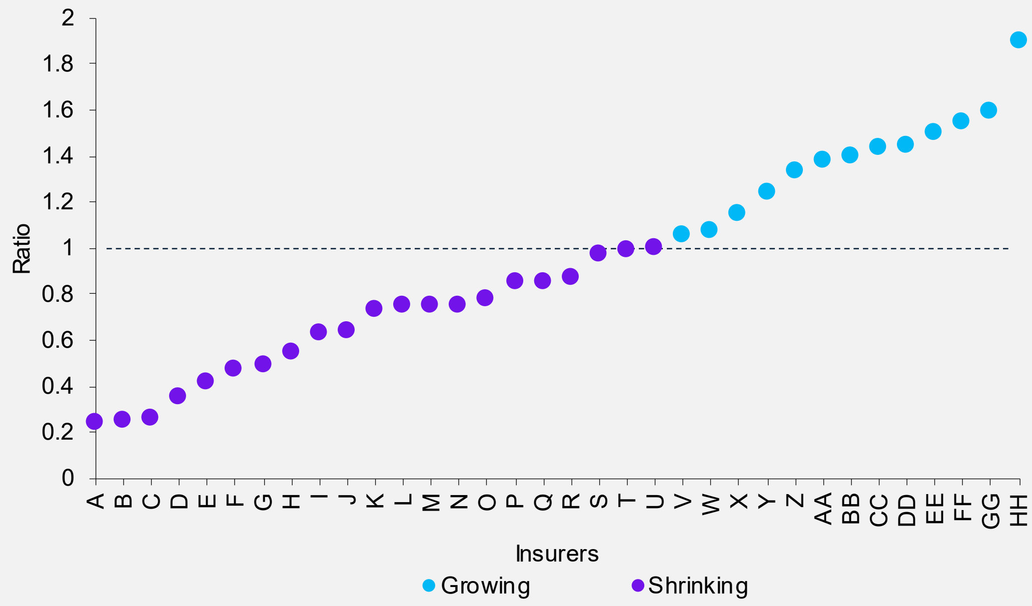
IFRS 17 provides new data that could unlock deeper insights into an insurer's growth and profit dynamics. While KPIs are still developing, additional analysis of new IFRS 17 information, such as the CSM and risk adjustment, may provide valuable quantitative measures to assess business growth and analyse profit drivers.

Growth analysis

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

- Analysing the CSM movement helps to understand the growth of an insurer's business over a specific period.
- Comparing the CSM recognised related to new contracts issued in the period with the CSM released during that period provides insights into the release of unearned profit and the growth trajectory of an insurer's business. The diagram shows an example for **34** insurers.

New CSM recognised/CSM released in H1 2023[1,2]



[1] The diagram is for illustrative purposes only and shows how 34 insurers could be compared in terms of the new CSM recognised from insurance contracts in the reporting period vs the CSM released in the period for insurance contract services provided.

[2] We did not include 7 insurers in the above diagram whose ratios exceeded 2.

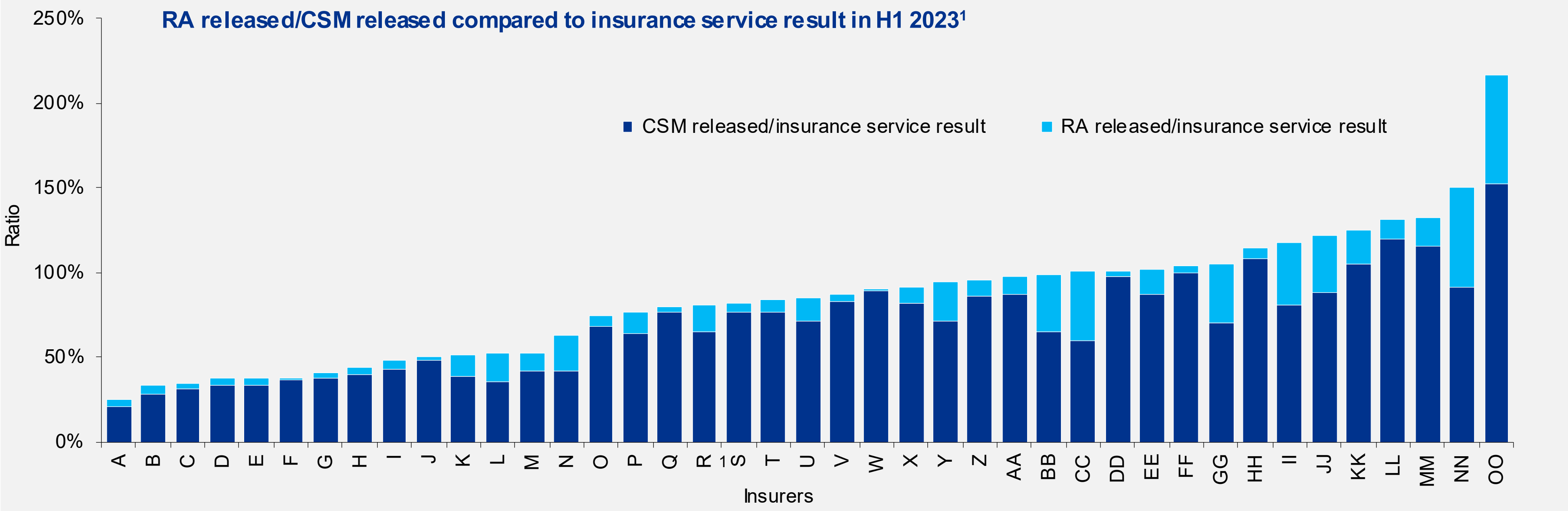
Key performance indicators – Life and Health metrics (cont.)

New performance metrics may develop in the industry to analyse insurers' profitability 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, as follows.

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



[1] The diagram is for illustrative purposes only and shows how 41 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 service result for the period.

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 will be required to report under the new accounting standards

Coming next: FY 2023

First FY financial statements based on IFRS 17 and IFRS 9

2024–2026

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

IASB post-implementation review (PIR)

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

Appendices

Appendix A – Company selection

Appendix B – Updated summary of accounting policies and significant judgements

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

Appendix D – Other observations on disclosures

Appendix E – Key performance indicators: Combined ratio

Appendix A – Company selection

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

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

Appendix A – Company selection (cont.)

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

Notes

- Our population includes insurers whose half-year report, prepared in accordance with IAS 34, was available by our cut-off date of 21 September 2023. These reports were used for the analysis included on pages 1 to 8 and Appendices C, D and E. For the analysis on pages 9 to 14 we have also used other sources of information including investor presentations published in respect of the half-year 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'.

Appendix B – Updated summary of accounting policies and significant judgements

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

Detail of accounting policies and judgement disclosures varied

Most non-life contracts eligible for PAA

13 insurers
have applied the EU exemption for annual cohorts

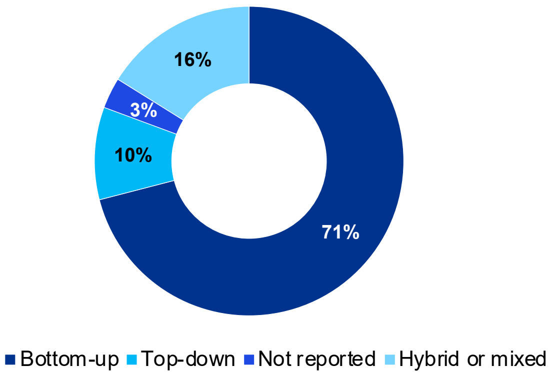
23 insurers
reported detailed disclosures on coverage units for the release of the CSM

62 insurers reported on opening equity impact

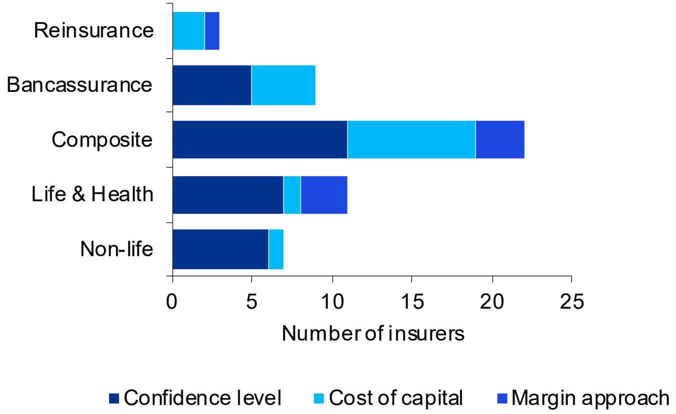
61% of insurers
are applying the OCI option for insurance liabilities. Countries or regions appear to have a strong preference for either applying the OCI option or not applying it.

30% of insurers
expect to measure the majority of investments in equity instruments at FVOCI

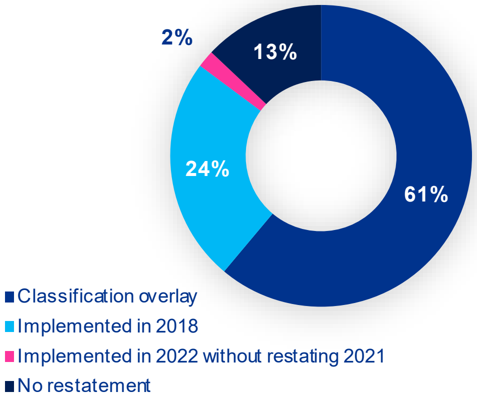
Discount rate methodology



Risk adjustment methodology



IFRS 9 classification overlay popular

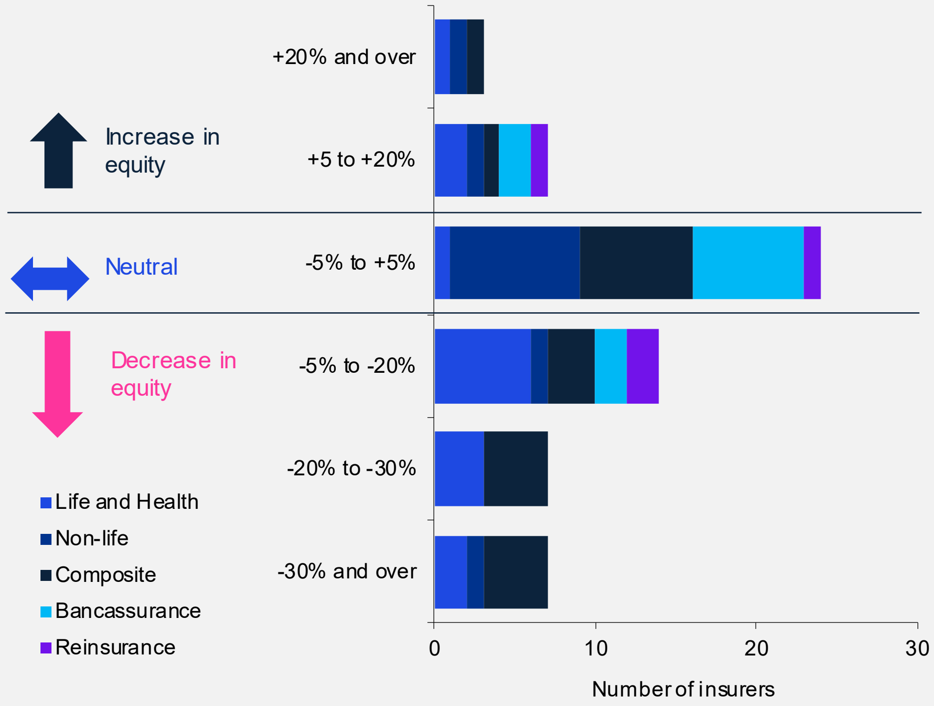


Appendix C – Updated impact disclosures on transition to IFRS 17 and IFRS 9

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

- Compared to our last report in June, **7** insurers have provided new information about the quantitative impact on opening equity as at 1 January 2022, taking our total to **62**. These 62 insurers have provided a point estimate impact in HY interim and related reports for a previously reported expected range of outcomes (i.e. more refined information has been provided).
- Half confirmed that impacts of transition were in line with what was disclosed previously – e.g. in their 2022 annual reports and investor education sessions. However, **31** insurers in our population reported a different equity impact as at 1 January 2022 in the HY interim report.
- Disclosures on the impacts of transition varied but many insurers included information in multiple locations – e.g. their IAS 34 interim report, HY trading update, 2022 annual financial statements and transition documents.
- **23** insurers provided a reconciliation between the IFRS 4/IAS 39 balance sheet and/or[1] the IFRS 17/IFRS 9 balance sheet as at 1 January 2022.
- In total, **32** insurers have indicated how much of their CSM at the date of transition is determined under each of the transition approaches (in either their first IAS 34 interim report or information provided before that date). Similar to our April report, there is significant variation in the transition approaches applied.

62 insurers disclosed how they expect opening equity[2] to be impacted



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

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.

Appendix D – Other observations on disclosures

Significant variation in IFRS 17 disclosures on explanation of recognised amounts and transition amounts

From our analysis of **64 insurers**' first half-year IAS 34[1] interim reports, we identified which IFRS 17 disclosures were included.

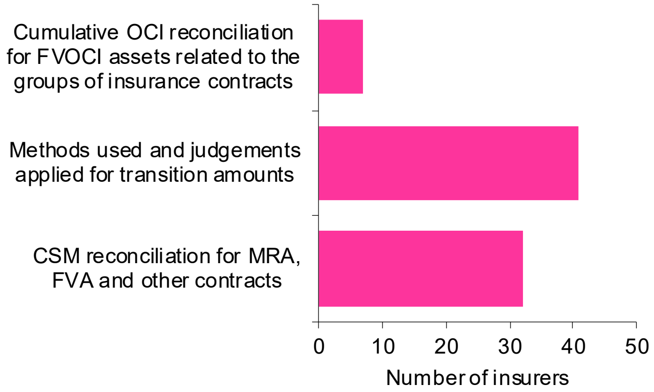
The graphs to the right and on the following page identify the number of insurers that included those disclosures[2].

The disclosures under '**Transition amounts**' are specific disclosures that enable users to understand how the insurance contract liabilities, including CSM, were determined at the date of transition.

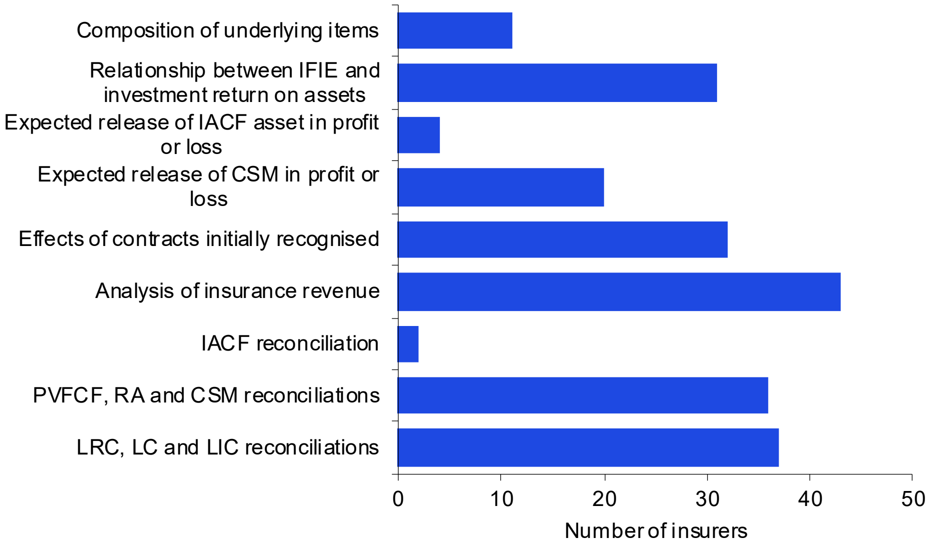
The disclosures under '**Explanation of recognised amounts**' provide information about the amounts recognised in the balance sheet and profit or loss. They explain how the amounts in the balance sheet and profit or loss are linked and provide different types of information about the insurance service result.

See Page 7 for our detailed findings on the expected release of the CSM in profit or loss.

Transition amounts



Explanation of recognised amounts



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

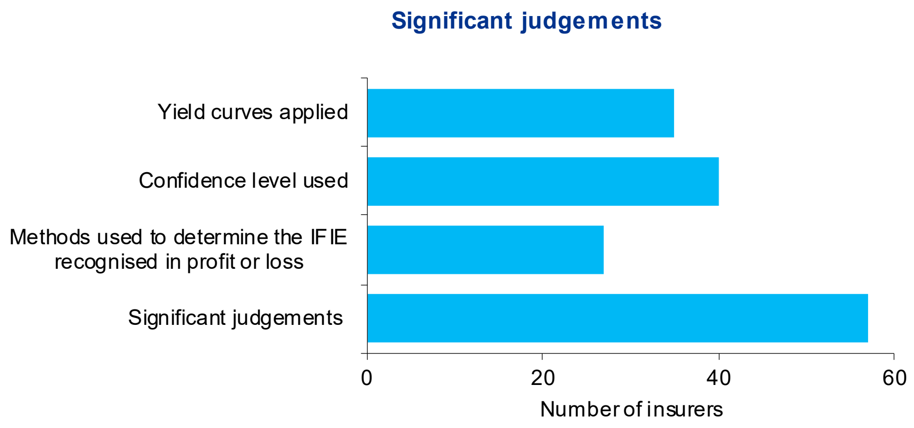
2 Segmentation differed by insurer. Some provided disclosures for the reporting entity only; others provided them by line of business and/or geographical area.

Appendix D – Other observations on disclosures

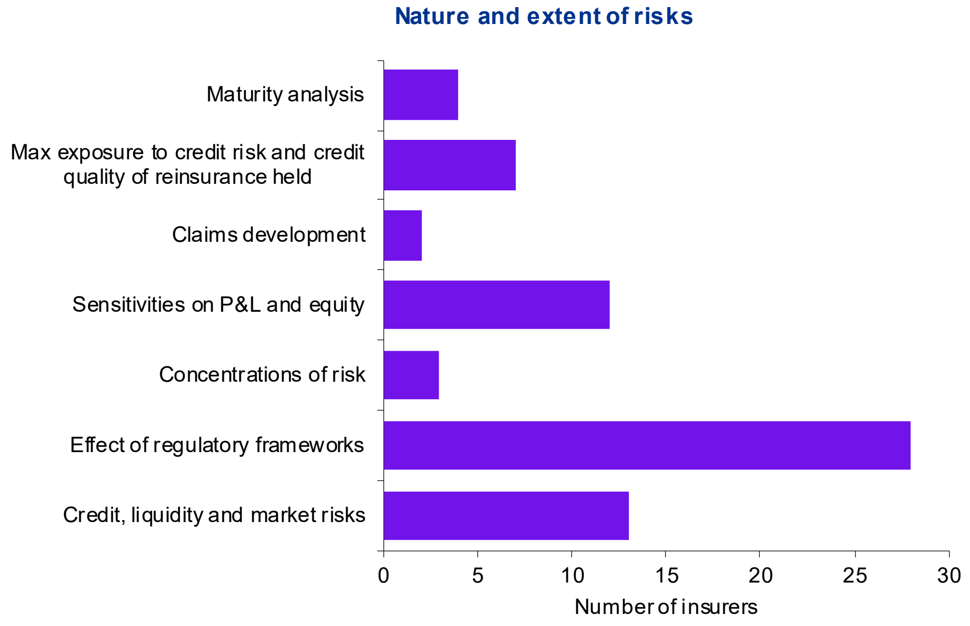
Quantitative disclosures on significant judgements have been included by many insurers, but detailed disclosures on the nature and extent of risks were limited

The disclosures under '**Significant judgements**' are disclosures about the significant judgements an insurer makes as well as changes in those judgements. These judgements relate to the methods used to measure insurance contracts and the processes for determining the inputs into those methods. An insurer will also need to disclose any changes in its methodology and the reasons for the change.

See Page 4, Page 5 and Page 6 for our detailed findings on yield curves applied and the confidence level used.



The disclosures under '**Nature and extent of risks**' are disclosures that focus on insurance and other risks that arise from insurance contracts. They allow users to understand the nature and amount of risks, and how they have been managed.



Appendix E – Key performance indicators: Combined ratio

Non-life insurers have updated the combined ratio to reflect new IFRS 17 line items for insurance revenue and insurance service expenses

Non-life insurers

- Ratios, including claims, loss and combined ratios, are now typically based on IFRS 17 insurance revenue rather than earned premiums.
- The following table shows the differences in calculation methodology we have observed in 29 insurers' HY 2023 reporting with adjustments compared with the base calculation methodology. Only one insurer has used the base methodology without adjustment.
- The adjustment for reinsurance breaks down into three different subcategories. 2 insurers have provided a combined ratio both before and after reinsurance.
- 3 insurers have continued using a revenue metric as the denominator that is not based on IFRS 17 (e.g. earned premiums or gross written premiums).
- 3 insurers have provided the combined ratio on both a discounted and undiscounted basis.

Base calculation for the combined ratio

$$\frac{\text{Insurance service expenses (ISE)}}{\text{Insurance revenue (IR)}}$$

	Number of insurers making adjustment
Adjusted for effect of reinsurance, of which:	**25**
Both ISE and IR adjusted	14
Reinsurance result adjusted in ISE	9
Adjusted, but not disclosed how	2
Adjusted to include other expenses[1]	**3**
Other adjustments[2]	**3**

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

[2] Insurers have indicated adjustments labelled as 'other', but provided no further explanation.

03

First year audits under PSAK 74

Transition timeline

Client workstream

- Finalize project plan
- Finalize accounting policies
- Finalize IT infrastructure

- Design and implement control framework
- Perform dry runs and testing of controls
- Remediate systems and control framework
- Generate PSAK 74 opening balances and restated comparatives
- Test PSAK 74 reporting process (including

- Generate 31 Dec 2025 ending balances
- Prepare PSAK 74 financial statements (including opening balance sheet and restated comparatives)

Transition Date (Opening Balance Sheet)

Effective Date of PSAK 74 date of initial application

31 December 2023 | **1 Jan 2024** | **31 December 2024** | **1 Jan 2025** | **Mid March 2025** | **31 December 2025** | **March 2026**

Opening balance sheet

Balance sheet at end of comparative period

Balance sheet at end of first reporting period

Think of this as the 'pivot point' from PSAK 62 to PSAK 74

Judgements made at the transition date – in particular calculation of the CSM & OCI - will influence reported results for many subsequent periods

Year ending 31 December 2023 **PSAK 62**

Year ending 31 December 2024 **PSAK 62**

Implies reporting on 2 bases for this period

Year ending 31 December 2025

First full year reporting on PSAK 74

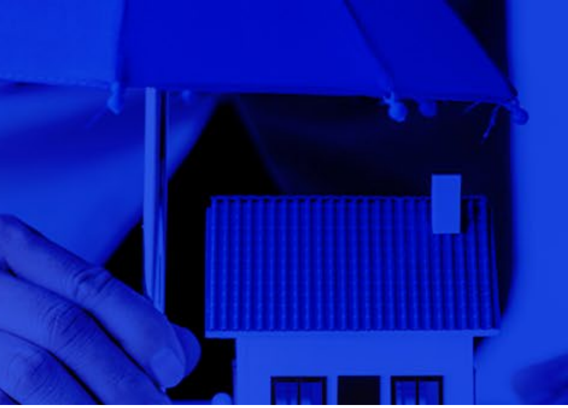
(including 3 balance sheets and results for the comparative period on an PSAK 74 basis)

Audit workstream

FY2024 audit under **PSAK 62** with PSAK 74 transitionary disclosures

FY2025 audit under **PSAK 74** with opening balance sheet and restated comparatives

Risks of material misstatement arising from accounting estimates in applying PSAK 74



Key Insights for audit committees

- For many insurance entities, there will be an increased risk of material misstatement arising from estimates that need to be made in order to apply PSAK 74. Make sure you understand management's governance, process, and controls over these risks and also the perspective of your auditor
- The implementation of PSAK 74 increases some of the inherent risk factors associated with estimates. Understanding these inherent risk factors is key to management's design of processes and controls and to your auditor's design of testing.
- The implementation of PSAK 74 may increase the relevance and significance of the inherent risk factors associated with estimates. Four of the most important sources of estimation uncertainty are:
    - future cash flows;
    - discount rates;
    - the risk adjustment; and
    - the consequential impact of estimates on the CSM and its subsequent accounting
- The determination of CSM at transition involves numerous key judgements. Release of the CSM will be a key factor in the determination of profit and loss in future years from existing business. Ensure that management describes the key factors in this determination for the auditor to assess.
- If the auditor has assessed the risks of material misstatement related to certain estimates as significant risks, understand the extent to which the auditor has evaluated and intends to rely on controls as part of the testing strategy

Key questions for those charged with governance to ask management and external auditors

Those charged with governance can focus their discussions with management using these key questions

Project planning and management
- What plans, project governance, and management arrangements are in place to deliberate on key decisions, to organize the change management process, and to design, build and test necessary valuation models and IT infrastructure in order to deliver high quality implementation?

Managing the transition
- Given the extent and complexity of the changes, and the length of the transition period, what controls and monitoring are management putting in place to ensure a timely and high-quality implementation?
- How will implementation decisions be monitored to ensure they remain appropriate?

Business processes, systems and data
- Has management identified the best sources of information and all necessary changes to existing business systems, processes and controls (including data and storage requirements) to ensure they are appropriate for use under PSAK 74?
- What are the most significant changes?

Financial reporting and controls
- How are financial reporting processes and control being designed, documented and tested, particularly where systems and data sources used for PSAK 74 reporting have not previously been subject to internal controls over financial reporting?

Accounting policies, judgements and estimates
- What are the key accounting policy choices, transition options, interpretations, estimates and judgements that have been made by management?
- Has management assessed these against their peers and the latest interpretations and guidance?

Business impact
- What is the expected initial and ongoing impact on strategy, business planning, equity and income patterns, pricing, products and distribution channels, taxation, KPIs used to measure management compensation and capital management (including regulatory capital and the ability to make distributions)?

Stakeholder communications
- What KPIs and management information are being used to communicate business and financial performance to internal and external stakeholders, during both the transition phase and after implementation?

Those charged with governance can focus their discussions with their external auditors using these key questions

Project planning and management
- What are the auditor's specific observations or concerns, if any, around management's transition plan and timelines, oversight of the judgements being exercised, and governance over the quality of data being used?

Project risk
- Bearing in mind the complexity, need for judgement and uncertainty involved, what are the auditor's observations on management's identification of the key risks with respect to the entity's implementation of IFRS 17?

Accounting policies, judgements and estimates
- Has the auditor reviewed the key accounting policy choices, transition options, interpretations, estimates and judgements made by the insurer?
- For which key accounting interpretations and judgements are the insurer and the auditor not in agreement, still in the process of assessment, or at greatest risk of developing differences in view?

Financial reporting processes, systems and controls
- Based on the work performed, does the auditor have any observations or concerns about the entity's internal control over sources of key data, new or updated systems and models, or key assumptions and estimates?

Managing the transition
- Where the entity has made use of proxies, practical expedients, manual or temporary solutions in implementation, how has the auditor identified and evaluated the risks associated with these measures and challenged and assessed both the appropriateness of their use and controls over their use now and in future periods?

Benchmarking
- Does the auditor have any observations on the entity's benchmarking of its accounting judgements, methodologies, assumptions and estimates compared to its peers?

Management bias
- What process will be undertaken by the auditor to 'stand back' and consider, in the context of the financial statements as a whole, the presence of bias (intentional or unintentional) in the entity's judgements, estimates, assumptions and disclosures regarding IFRS 17?

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