



Market updates on the impact of IFRS 17 and IFRS 9

Observations from half-year IAS 34 interim financial statements published by insurers

October 2023

EY

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Introduction

Observations were taken from IFRS 17 and IFRS 9 disclosures published in IAS 34 interim financial statements as on 30 June 2023 by a panel of 30 international insurance groups.

Background:

- ▶ Insurers are applying IFRS 17 *Insurance Contracts* (IFRS 17) since 1 January 2023 and most of them are also applying IFRS 9 *Financial Instruments* (IFRS 9) at the same date for the first time.
- ▶ During the summer of 2023, several insurance groups published their half-year IAS 34 interim financial statements, applying IFRS 17 and IFRS 9. For the majority of them, this was the first IAS 34 interim accounts published, applying IFRS 17 and IFRS 9 (a minority already published for Q1 2023).

Analysis performed:

- ▶ We selected a panel of 30 listed insurers that apply IFRS as the accounting framework in their consolidated financial statements.
- ▶ For these groups, we analyzed the disclosures included in their IAS 34 interim financial statements as on 30 June 2023 on the impacts of implementing IFRS 17 and IFRS 9.
- ▶ Based on information from these disclosures, we produced a number of IFRS 17 and IFRS 9 financial metrics to compare the insurer's results.
- ▶ We also compared the insurers on a number of key methodology decisions.
- ▶ We intend to update our analysis post the release of the YE 2023 financial statements, as further disclosures on IFRS 17 and IFRS 9 become available.

Insurers by geography:



Segment:

- ▶ **Life and health:** Eight groups underwrite only life and health (L&H) business, which includes short- and long-term savings, and retirement products.
- ▶ **Composite:** Nineteen groups are composite and underwrite both property and casualty (P&C) business, and life business (with a number of them also having major inward reinsurance segments).
- ▶ **P&C:** Three groups underwrite P&C business only.

Table of contents



1

Key
highlights

2

IFRS 17 and 9:
financial
metrics
analysis

3

IFRS 17 and 9:
comparison of
methodologies
and KPIs

4

Appendix



Key highlights

Key highlights



Note: a glossary of terms is available at page 30

★ ● No. of Insurers

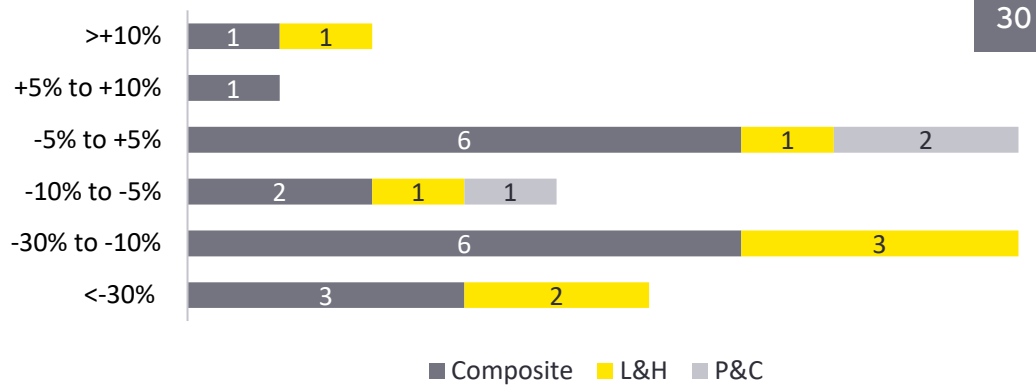


IFRS 17 and 9: financial metrics analysis

Shareholder's equity change

No. of insurers presented

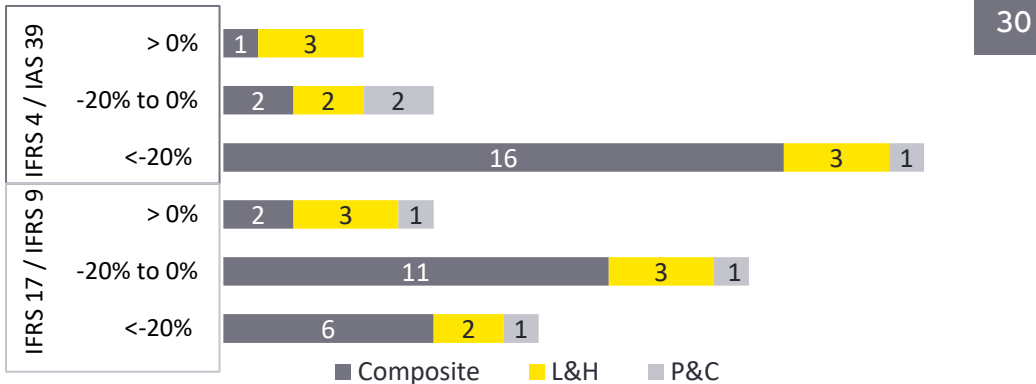
IFRS 17 and IFRS 9 vs. IFRS 4 and IAS 39: 1 January 2022



On transition: negative impact for long-duration business due to CSM, RA and use of current assumptions in measurement

- ▼ A large majority of composite and L&H insurers reported **decreased equity** due to the **recognition of a risk adjustment and CSM** and the **application of current assumptions in the IFRS 17 measurement**.
 - ▶ The percentage impact varied across insurers, mainly in the **range between – 30% and +10%**.
 - ▶ For **P&C insurers**, the impact was **less pronounced**, given the shorter duration of their business with the majority of the contracts measured under the PAA.

IFRS 17 and IFRS 9 vs. IFRS 4 and IAS 39: 1 January 2023 vs. 1 January 2022 (annual movement)



After transition: better alignment between the measurement of investments and liabilities

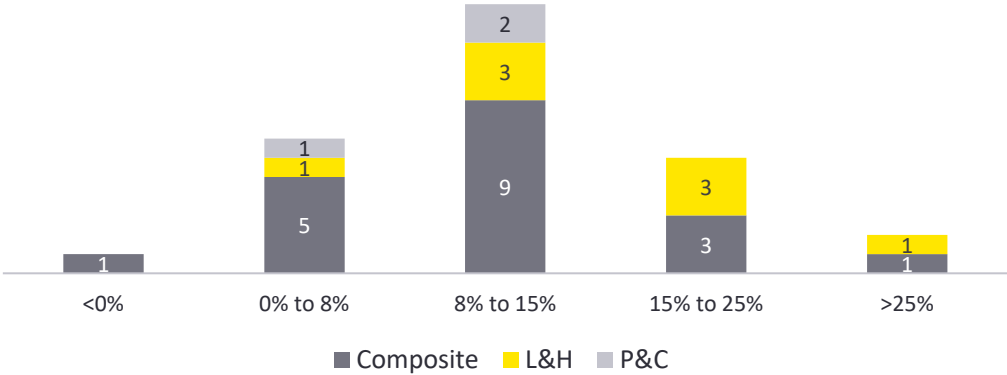
- ▼ The majority of the insurers showed a **decrease in equity** under both sets of standards during the full year 2022, but the **decrease was larger under IFRS 4 and IAS 39**.
 - ▶ A key reason is **better alignment between the measurement models of the investments and the insurance contract liabilities**, as now, **values of both are impacted by changes in current market interest rates**.

Net profit margin: ratio of net profit to insurance revenue

No. of insurers presented

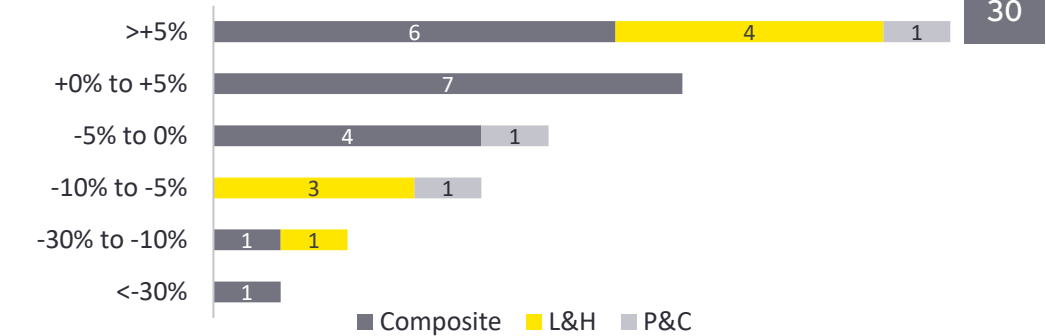
Net profit margin on 30 June 2023

30



Net profit margin: 30 June 2023 vs. 30 June 2022 (HY 2022 comparison, percentage point (pp) change)

30



What the metric is about

It represents the amount of **net profit** the entity obtains from its **total insurance revenue**. The **higher the percentage**, the **higher the amount of net profit** that the entity generates in proportion to insurance revenue.

Key takeaways as on 30 June 2023

- ▶ Large majority of composite insurers disclosed a net profit margin between 8% and 15%; most L&H insurers are showing a margin between 8% and 25%, while P&C insurers are presenting a range of 5% to 13%.
- ▶ Two insurers disclosed a margin above 25%, while one composite insurer disclosed a negative net profit margin, driven by a negative net profit as on 30 June 2023.

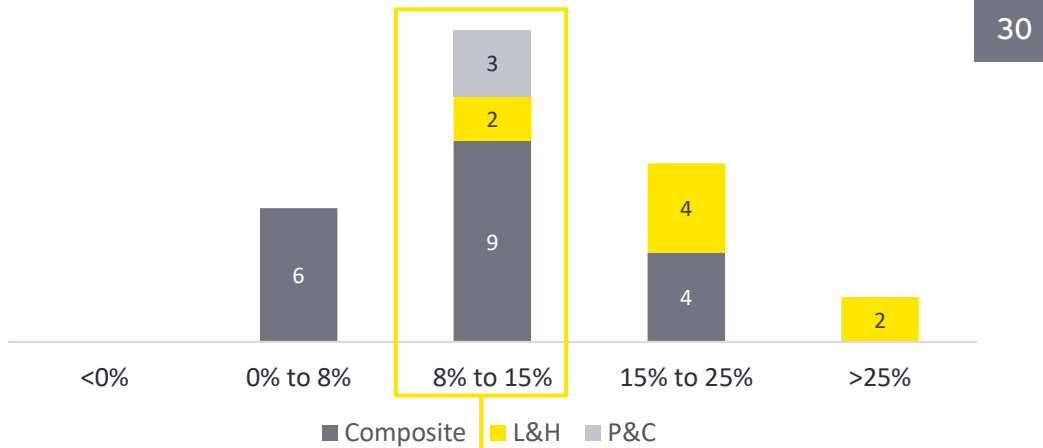
Insights from comparatives on 30 June 2022

- ▲ Generally, composites reported an increase in the HY 2023 net profit margin compared with HY 2022, mainly due to less unfavourable impacts from market volatility for HY 2023, particularly for insurers that recognize the change of financial variables in profit or loss.
- ▬ L&H insurers showed a more balanced change during the year, with half of them disclosing a higher margin, while the other half showed a lower one.
- ▼ Two P&C insurers showed a decrease in the HY 2023 margin compared with the HY 2022 ratio, with one commenting that this was being driven by a decrease in the net profit observed in the year. The decrease was mainly due to the strong favourable effect of changes in discount rates recognized in profit or loss during HY 2022.

Insurance service margin: ratio of insurance service result to insurance revenue

No. of insurers presented

Insurance service margin on 30 June 2023



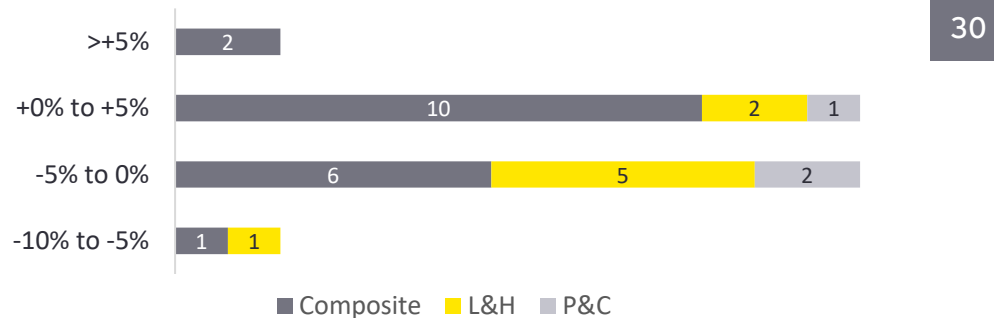
What the metric is about

It represents the amount of **profit from insurance service** the entity obtains from its **total insurance revenue**. The **higher the percentage**, the **higher the amount of profit** from insurance service that the entity generates in proportion to insurance revenue.

Key takeaways as on 30 June 2023

- ▶ The majority of insurers disclosed an insurance service margin between 8% and 15%.
- ▶ L&H insurers generally presented a higher insurance service margin as compared with composite and P&C insurers.
- ▶ Overall, the insurance service margin was higher than the net profit ratio for two-third of the insurers, driven by a stronger insurance service result compared with the total net profit as on 30 June 2023.

Insurance service margin: 30 June 2023 vs. 30 June 2022 (HY 2022 comparison, pp change)



Insights from comparatives on 30 June 2022

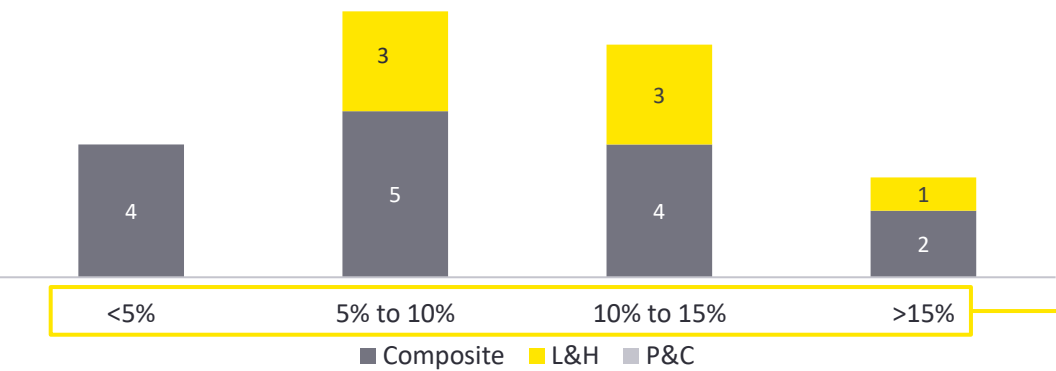
- ▲ Generally, the majority of composite insurers observed an increase in the margin compared with HY 2022 due to an increase in the insurance service result in proportion to total insurance revenue in the year.
- ▼ The majority of L&H and P&C insurers observed a decrease in the margin, partially driven by an increase in the total insurance revenue observed in the year without a corresponding change in insurance service result.

Ratio of CSM to insurance contract liabilities (business under the GM and VFA models)

No. of insurers presented

Ratio of CSM to ICL (GM and VFA) on 30 June 2023

22



What the metric is about

It represents the **weight of the CSM** on the **total insurance contract liabilities**, covering the GM and VFA business. The **higher the percentage**, the higher is the relative value of the CSM, which means there is **more remaining future profitability** from insurance contracts.

Key takeaways as on 30 June 2023

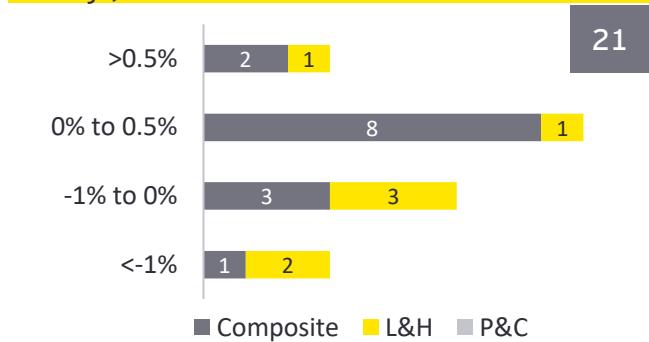
- One of the drivers of **higher CSM** for profitable insurance contracts is the use of the **fully retrospective and modified retrospective approaches** to quantify the CSM at transition for certain types of business, as **opposed to the use of the fair value approach**, which generally results in a lower CSM.
- The total range observed is **between 3% and 30%**. Most **composite and L&H insurers** disclosed a ratio **above 5%** for their GM and VFA insurance business.

Insights from comparatives

- The **large majority** of insurers showed a slight increase in the **HY 2023 ratio** compared with the **FY 2022** mainly concentrated **between 0% and 0.5%**. One factor contributing to this is the addition of future profits from new business exceeding the run-off of profit from existing business.
- The **large majority** of insurers presented an **increase of more than 1%** in the ratio since the transition date, with **one composite insurer** in particular that presented an **increase of 6%**.

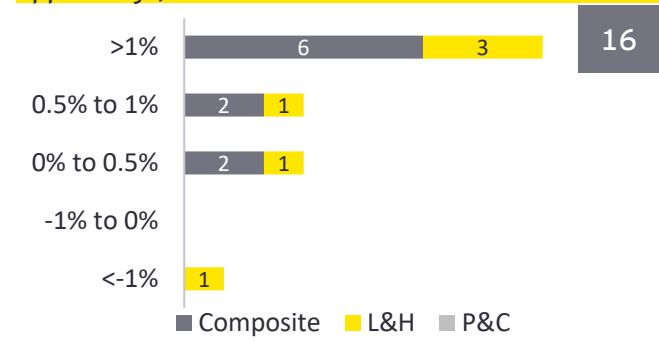
Ratio of CSM to ICL (GM and VFA): 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)

21



Ratio of CSM to ICL (GM and VFA): 30 June 2023 vs. 1 January 2022 (transition date comparison, pp change)

16

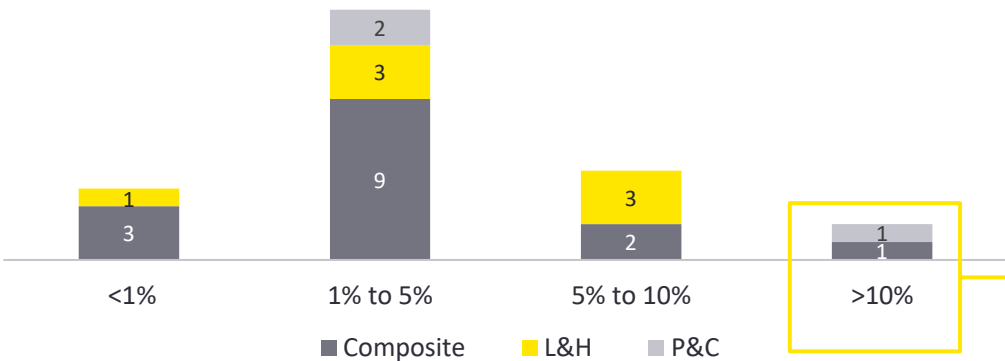


Ratio of risk adjustment (RA) to total insurance contract liabilities (ICL)

No. of insurers presented

Ratio of RA to ICL on 30 June 2023

25



What the metric is about

It represents the **proportion of RA to total insurance contract liabilities** for all measurement models (GM, VFA and PAA). For PAA, the ratio relates to the RA of the liability for incurred claims only. The **higher the ratio, the higher is the relative size of the RA**. The amount of RA is driven by several factors, such as the **type of business** underwritten, the **technique** and the **confidence level** adopted for its calculation, and the **level of diversification** applied.

Key takeaways as on 30 June 2023

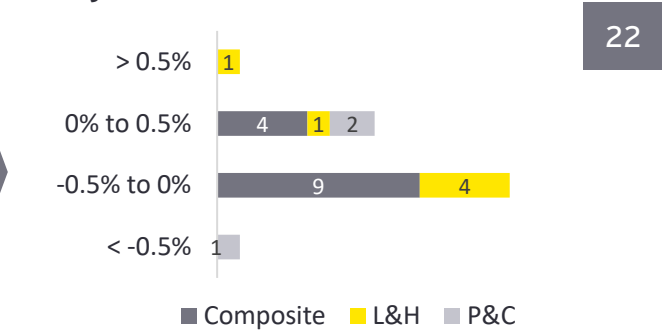
- ▶ The large majority of insurers are presenting a ratio of RA to total ICL in the range **between 1% and 5%**.
- ▶ There are **two insurers** that disclosed a **ratio above 10%**: one **P&C** insurer, which applies the PAA for its entire business, and **one composite**, which applies the GM for its entire business.

Insights from comparatives

- Overall, this ratio **has been relatively stable** from 1 January 2022 to 30 June 2023.
- The large majority of insurers **showed a slight decrease** in the **HY 2023** ratio compared with the **FY 2022**, mainly concentrated in the percentage of **up to -0.5%**.
- The **movement in the ratio since the transition date** showed, for the **majority of insurers**, a slight decrease, with one **Composite** insurer disclosing the **highest decrease of -1.2%**.

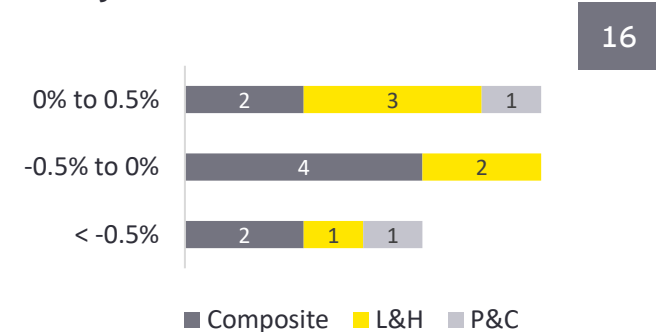
Ratio of RA to ICL: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)

22



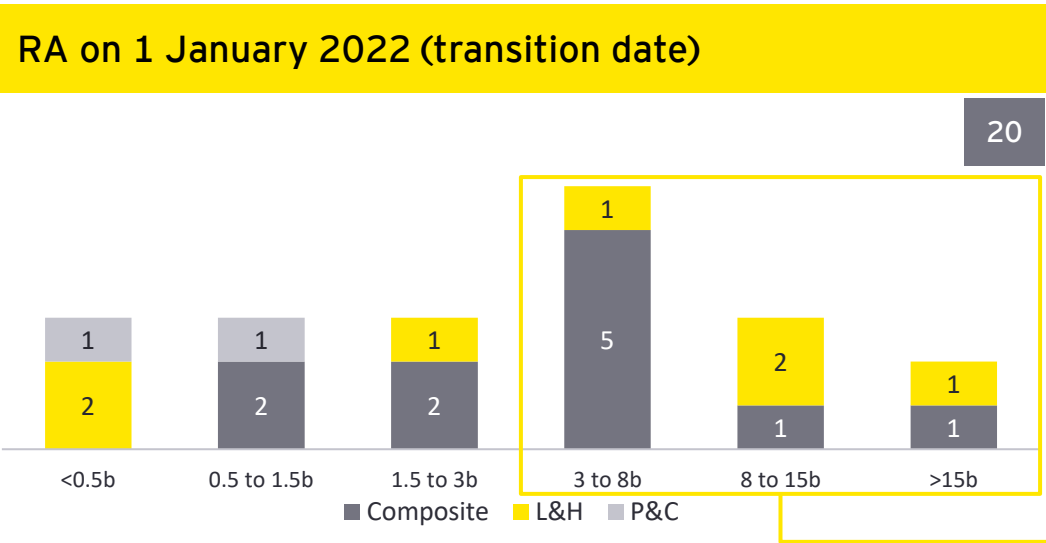
Ratio of RA to ICL: 30 June 2023 vs. 1 January 2022 (transition date comparison, pp change)

16



Risk adjustment (RA) movement in the comparative period (2022) vs. current period

No. of insurers presented



What the metric is about

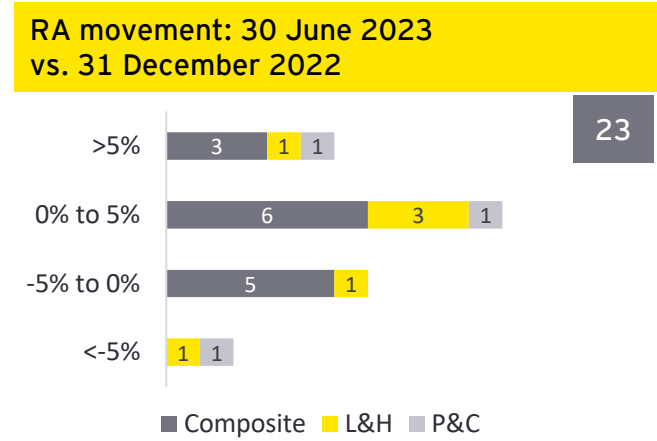
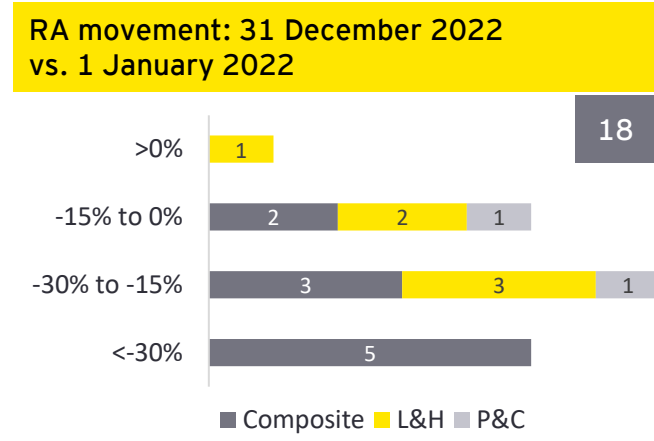
The purpose of this metric is to show the **movement of the RA from transition date to HY 2023** in absolute terms, and to highlight the impacts from the large increase in interest rates observed during the year 2022.

Key takeaways as on 1 January 2022

- The majority of insurers reported a total carrying amount of RA for their insurance contracts issued business above CU3b in their respective reporting currency.

Insights from RA movement in the period

- ▼ Almost all insurers reported a substantial decrease in the FY 2022 RA as compared with the RA at transition date, which was largely driven by the increase in interest rates in 2022.
- Most insurers apply the disaggregation of the finance effects for the RA, which means that changes in the RA due to the effect of the large change in interest rates during 2022 do not adjust the CSM, but are recognized in the income statement instead.
- The RA movement between HY 2023 and FY 2022 has been relatively stable in the light of less pronounced interest rate changes during HY 2023.

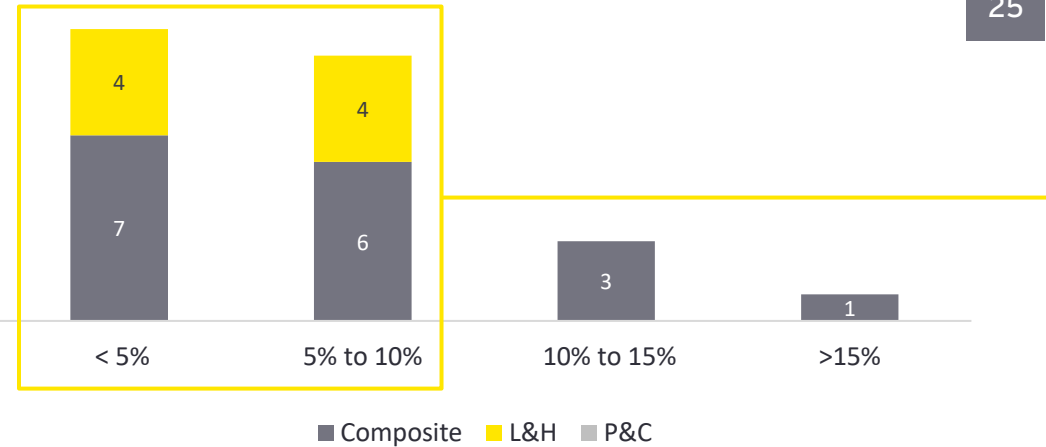


CSM release ratio: ratio of CSM release in the period to total CSM

No. of insurers presented

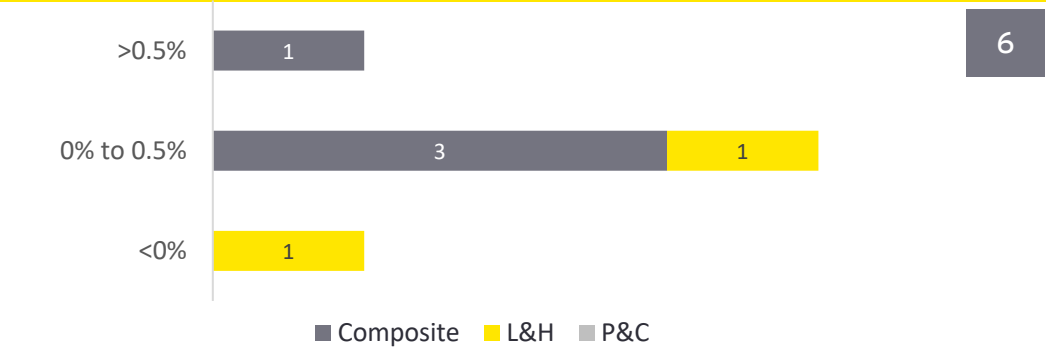
CSM release on 30 June 2023

25



CSM release: 30 June 2023 vs. 30 June 2022 (HY 2022 comparison, pp change)

6



What the metric is about

It represents the **amount of CSM released** to profit and loss as a percentage of the **total CSM balance** at the end of the period. This ratio provides some insight into the **runoff period** of the CSM, which can be analyzed further **when the CSM runoff period is disclosed in the annual financial statements** presented at the year-end in accordance with IFRS 17.

Key takeaways as on 30 June 2023

- ▶ **Around half** of insurers released up to 5% of their total CSM during the first six months of 2023. Another group of insurers released **between 5% to 10% of the CSM**, representing 21 insurers in total. **This points to, when translated to an annual basis, a run off period range of 5-10 years for the existing CSM.**
- ▶ The CSM release ratio for the first six months provides an **indication of the annual CSM release**. The **higher the ratio, the shorter the expected CSM release period.**

Insights from comparatives on 30 June 2022

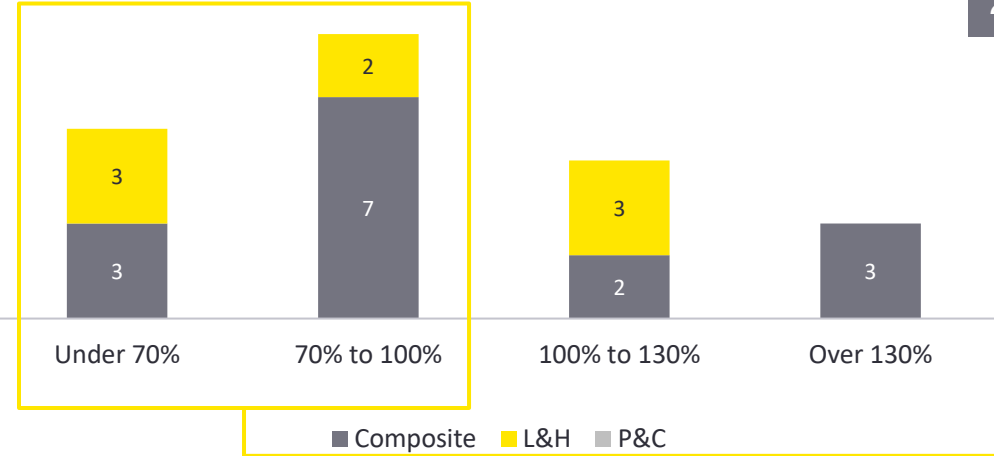
- ▶ The HY 2022 CSM release ratio was **available for few insurers only**, given that the **large majority of insurers disclosed FY 2022 IFRS 17 roll-forward tables** for their comparatives.
- ▶ For the insurers that provided this information, the HY 2023 CSM release ratio **was generally in line with the HY 2022 CSM release percentage**. For one **composite insurer**, we observed an **increase of 3%** in the CSM release ratio.

CSM growth ratio: ratio of new business CSM to CSM release

No. of insurers presented

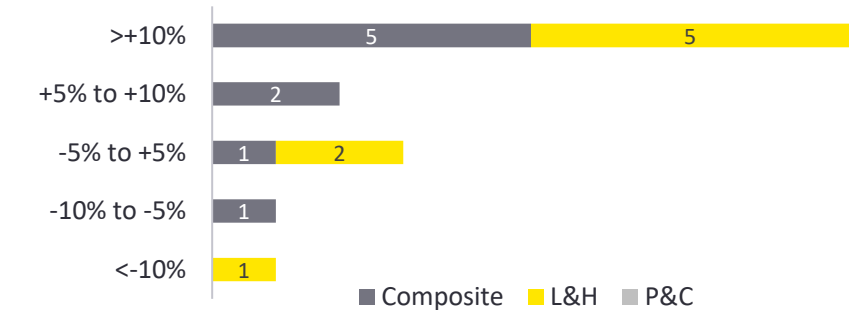
CSM growth on 30 June 2023

23



CSM growth: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)

17



What the metric is about

It provides insights on the **growth direction of the unearned CSM** of insurers. A ratio **above 100%** means that, absent other measurement effects, the **CSM is growing** (i.e., the amount of CSM recognized for new business is **higher** than the amount of CSM released in the period). A ratio **below 100%** means that the **CSM is declining**.

Key takeaways as on 30 June 2023

- ▶ The majority of insurers presented an amount of CSM released that is higher than the amount of CSM added for new business during the six months, ending on 30 June 2023, resulting in a HY 2023 CSM growth ratio below 100%.
- ▶ One composite and one L&H insurer reported the lowest ratio of 50%.
- ▶ Only three insurers disclosed a ratio above 130%. In particular, one composite insurer showed a ratio of 150%.

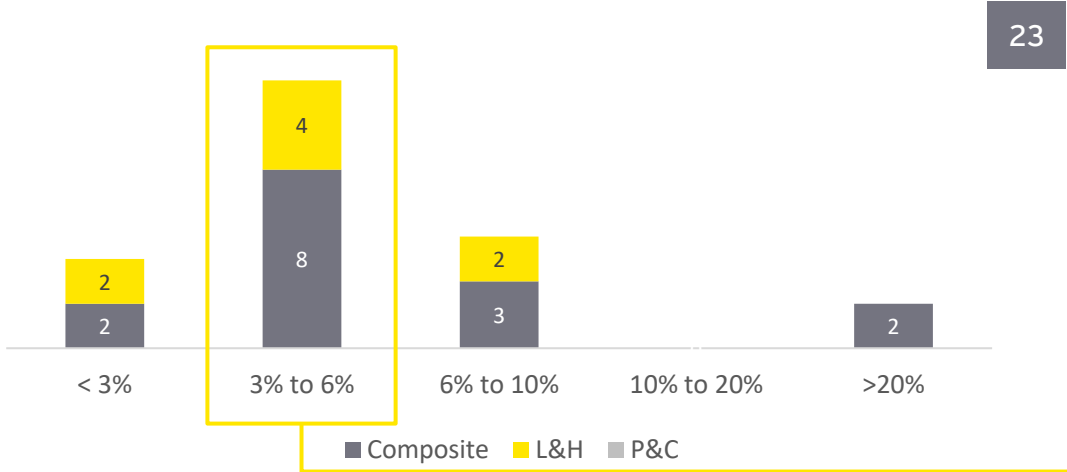
Insights from comparatives on 31 December 2022

- ▲ The large majority of composite and L&H insurers observed an improvement above 10% in the HY 2023 CSM growth ratio as compared with the FY 2022 one. In particular, one composite insurer showed an increase of 82% in the CSM growth ratio. It was driven by a significant increase in the CSM from the new business recognized in the first six months of 2023.
- ▲ For the insurers who disclosed the HY 2022 movement (not shown in the diagrams as majority of the insurers disclosed FY 2022 roll-forward tables), we observed the majority to show a slight improvement in the growth ratio up to 2%, while only one insurer presented a decrease in the growth ratio of -3%.

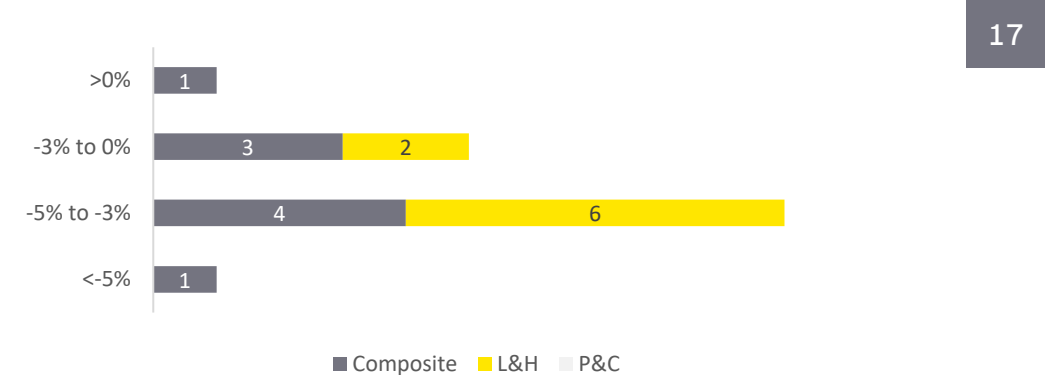
New business (NB) CSM weight: ratio of new business CSM to total CSM

No. of insurers presented

NB CSM weight on 30 June 2023



NB CSM weight: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)



What the metric is about

It represents the **weight of the CSM from new business** written in the period and provides insight regarding **profitable new business**. The **higher the ratio**, the higher is the amount of **new unearned future profit** recognized by the insurer during the period relative to the total remaining CSM at the end of the period.

Key takeaways as on 30 June 2023

- ▶ The **majority** of insurers presented an amount of **new business CSM** from **new insurance contracts** recognized during the **first six months of 2023** over the **total amount of CSM**, which is in the range **between 3% and 6%**.
- ▶ The **lowest percentage** has been observed for **one composite insurer** and **one L&H insurer**, which presented a weight percentage of **2%**.
- ▶ **Two composite insurers** presented a weight percentage **above 20%**, in particular one disclosed a percentage of **22%**.

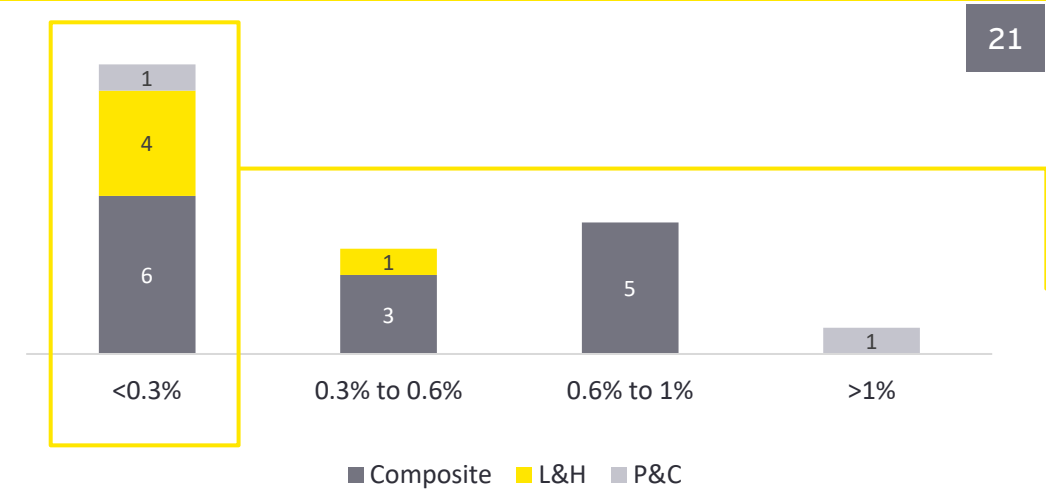
Insights from comparatives on 31 December 2022

- ▼ The **large majority** of **composite and L&H insurers** observed a **decrease** in the range **between -3% and -5%** in the **HY 2023 new business CSM weight ratio** as compared with the **FY 2022 weight ratio**
- ▲ For the insurers who disclosed the **HY 2022 movement** (not shown in the diagrams as majority of the insurers disclosed **FY 2022 roll-forward tables**), the **large majority** showed an **improvement** in the weight ratio in the year **between 0% and 3%**, while only **one insurer** presented a **decrease** in the weight ratio of **-3%**

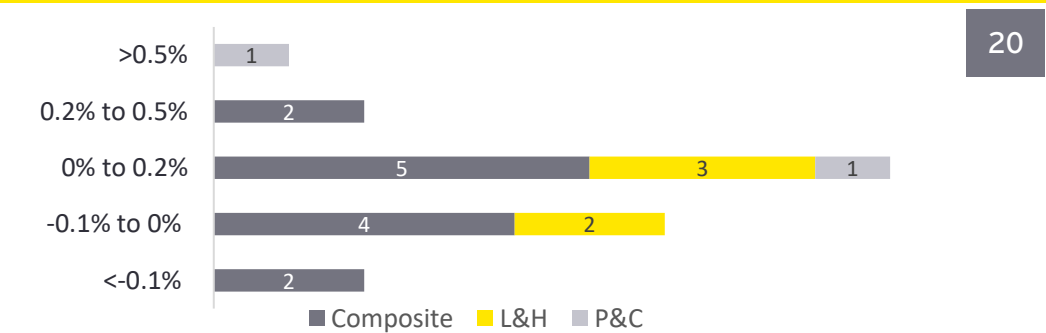
Loss component weight: ratio of loss component to total insurance contract liabilities

No. of insurers presented

Loss component weight on 30 June 2023



Loss component weight: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)



What the metric is about

It represents the **proportion of the loss component** on the **total insurance contract liabilities** and provides insight on the **size of onerous business**. The higher the ratio, the higher the value of **onerous contracts** recognized.

Key takeaways as on 30 June 2023

- ▶ The **substantial majority** of insurers presented a loss component amount relative to total insurance contract liabilities of less **than 0.3%**.
- ▶ Only **one P&C** insurer presented a loss component weight **above 1%**.

Insights from comparatives on 31 December 2022

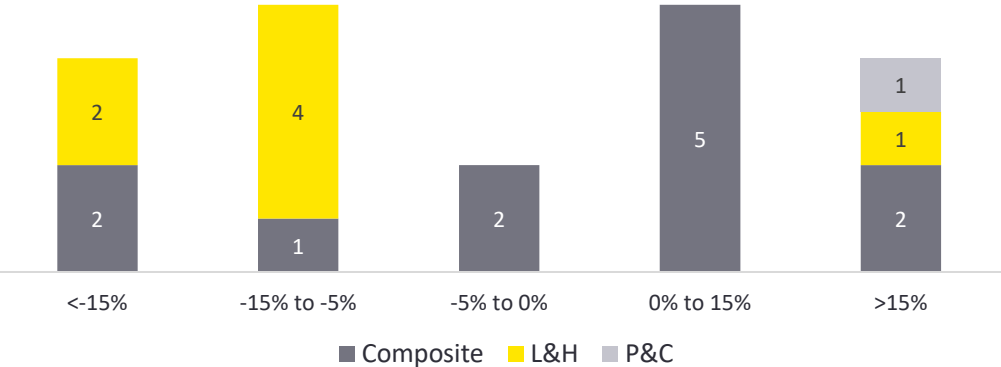
- ▲ The **large majority** of insurers observed an **increase** in the range **between 0% and 0.2%** in the **HY 2023** loss component weight ratio as compared with the **FY 2022** weight ratio.
- ▲ For the **only P&C insurer** which disclosed the **HY 2022 movement** (not shown in the diagrams as majority of the insurers disclosed **FY 2022** roll-forward tables), we observed an **increase** in the weight ratio of **2.5%**, **driven by an increase** in the amount of **new business onerous contracts** written in the year.

Experience variance weight (GM and VFA): experience variance as a proportion of insurance service result

No. of insurers presented

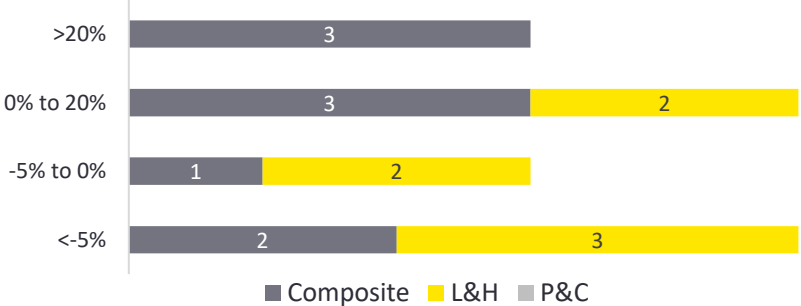
Experience variance weight (GM and VFA) on 30 June 2023

20



Experience variance weight: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)

16



What the metric is about

It represents the weight that the **experience adjustments related to current services** for GM and VFA has on the **insurance service result** generated during the period. A ratio **above 0%** means the insurer presented a **favourable effect** from its experience variance, while a ratio **below 0%** means the insurer presented an **unfavourable effect** from its experience variance.

Key takeaways as on 30 June 2023

- ▶ The **large majority** of L&H insurers presented a **negative experience variance** of **above -5%** of their insurance service results. In particular, one insurer disclosed a weight of **-47%**.
- ▶ The **majority of composite insurers** presented a **positive experience variance** **within 15%** of their insurance service results. Two **composite insurers** disclosed a weight **above 15%**.
- ▶ This metric appears to be **less relevant for P&C insurers**, given that all or the large majority of their business is generally measured under the PAA.

Insights from comparatives on 31 December 2022

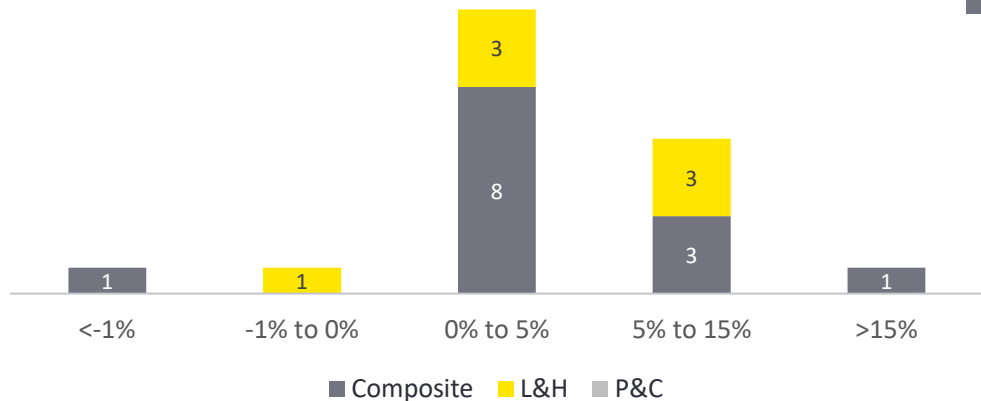
- ▲ The **large majority** of **composite** insurers reported an **improvement** in their **HY 2023** experience variance weight, which positively contributed to the insurance service result.
- ▼ On the other hand, the **majority of L&H Insurers** reported a **deterioration** in their **HY 2023** experience variance weight, which negatively contributed to their insurance service results.

Reinsurance CSM weight : ratio of reinsurance CSM to the CSM of insurance contracts issued

No. of insurers presented

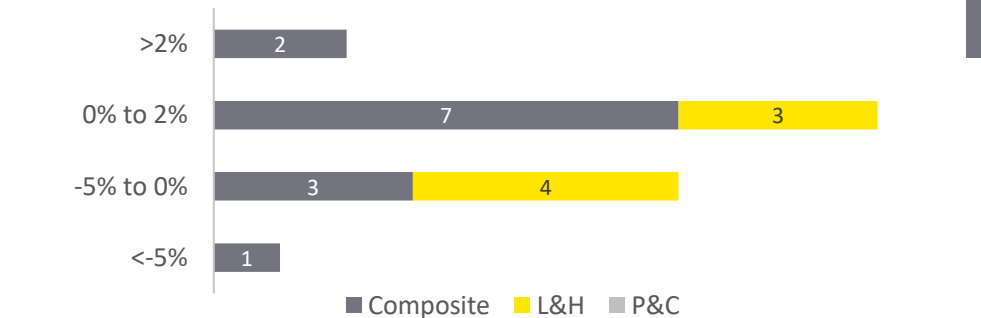
Reinsurance CSM weight on 30 June 2023

20



Reinsurance CSM weight: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)

20



What the metric is about

It provides insights on the **weight of future profit ceded** to reinsurers. A ratio **above 0%** means that the CSM for reinsurance contracts held is a **net cost** (i.e., debit CSM). While a ratio **below 0%** means that the CSM for reinsurance contracts held is a **net gain** (i.e., credit CSM).

Key takeaways as on 30 June 2023

- ▶ **The large majority of insurers** presented an **expected net cost** on their reinsurance contracts held, resulting in a **reinsurance CSM weight above 0%**. The main range observed is between 1% to 5%, while **one composite insurer** presented a reinsurance CSM weight **above 15%**.
- ▶ On the other hand, the insurers which presented a **reinsurance CSM weight below 0%** showed an **expected net gain** on their reinsurance contracts held. In particular, **one composite insurer** presented a reinsurance CSM weight of **-3%**.
- ▶ **Some insurers** are primarily measuring their reinsurance contracts held under the PAA and therefore, **do not report an expected net cost or gain** of reinsurance held through the CSM.

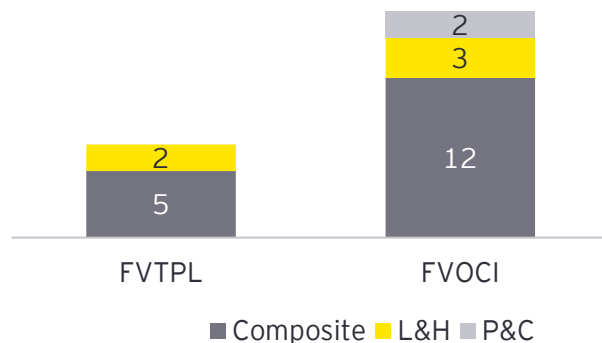
Insights from comparatives on 31 December 2022

- ▲ The **majority of insurers** observed an **increase** in the HY 2023 reinsurance CSM weight as compared with the FY 2022 weight. Ten insurers presented an increase **up to 2%**, while **two** insurers presented an increase **above 2%**, with one of them disclosing a **5% increase**.
- ▬ For the insurers that disclosed the HY 2022 movement (not represented in the diagrams as majority of the insurers disclosed FY 2022 roll-forward tables), the reinsurance CSM weight **was generally in line** with the HY 2023 weight.

IFRS 9: classification and expected credit loss (ECL) allowance

No. of insurers presented

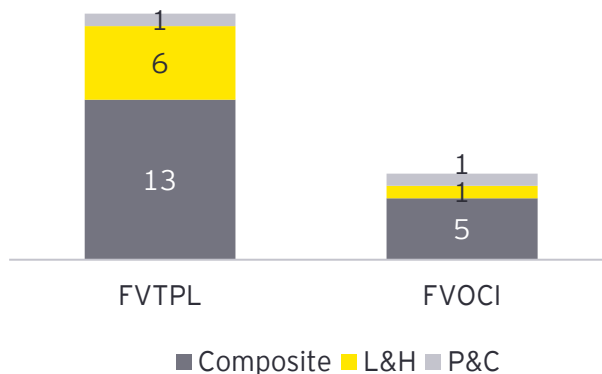
Main IFRS 9 classification: debt instruments on 30 June 2023



24

- Seventeen insurers measure the majority of their debt securities at FVOCI, while seven use FVTPL. None had amortized cost as the main category.

Main IFRS 9 classification: equity instruments on 30 June 2023

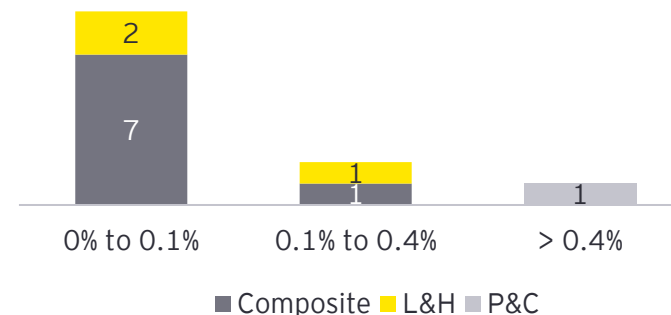


27

- Twenty insurers measure the majority of their equity securities at FVTPL, while seven account for equity instruments at FVOCI (non-recyclable).

ECL allowance as a proportion of carrying value: 12-month (stage 1) and lifetime (stage 2 and 3) on 30 June 2023

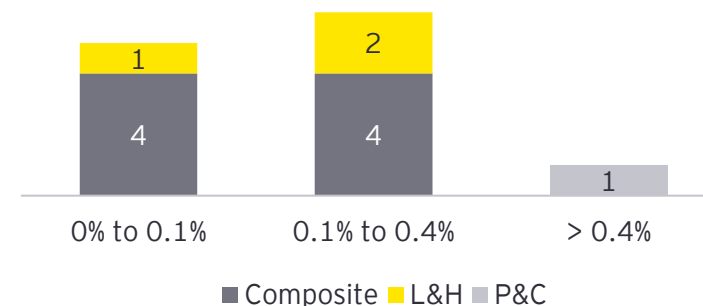
12-month ECL



12

- The majority of insurers disclosed a **12-month ECL** allowance, which is up to **0.1%** of the amount of debts that are subject to impairment (FVOCI and AC). **One** P&C insurer reported **0.57%**.

Lifetime ECL



- The majority of insurers disclosed a **lifetime ECL** allowance, which is in the range between **0.1% and 0.4%** of the amount of debt instruments subject to impairment. **One** P&C insurer reported **2.13%**.



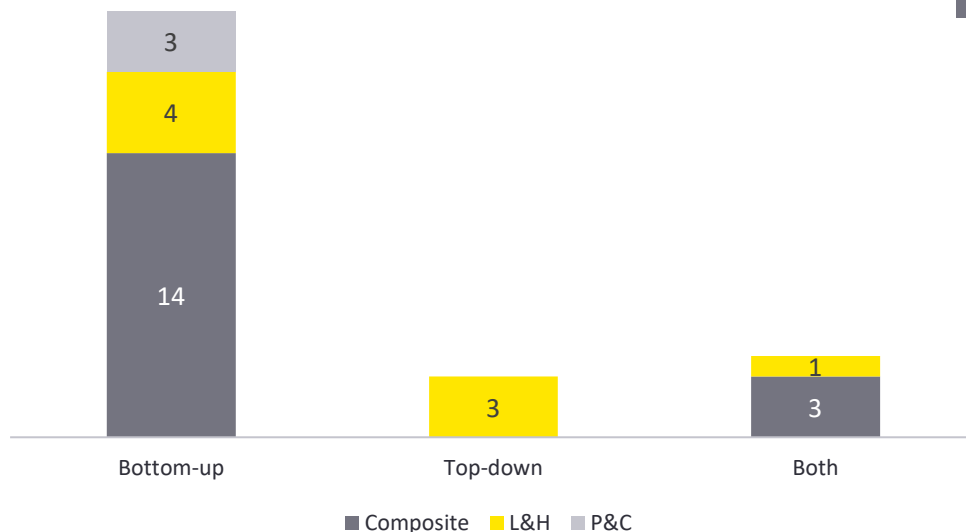
IFRS 17 and 9: comparison of methodologies and KPIs

Discount rate approach and curve

No. of insurers presented

Discount rate approach

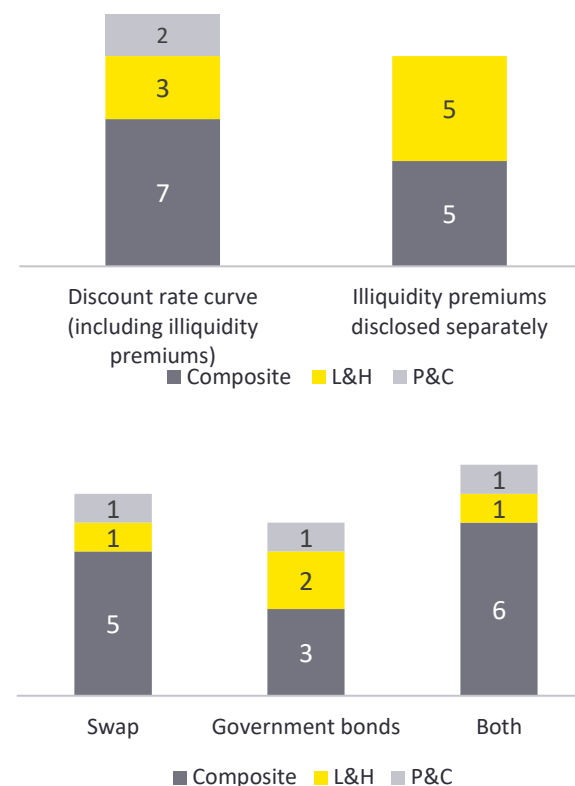
28



- ▶ A **large majority** of insurers disclosed the use of the **bottom-up approach**, with some of them providing further information on the determination of the illiquidity premium (e.g., derived from own assets).
- ▶ Three composite and one L&H insurer disclosed the use of both methods, depending on the type of business. In particular, one insurer mentioned to use the **bottom-up approach** apart from the **annuity business**, where they use the **top-down approach**. Another one mentioned to use **bottom-up approach** for P&C business, while **top-down approach** for L&H business.

Discount rate curve

22



- ▶ The **majority** of the insurers disclosed the **yield curve** used to discount the cash flows. **Ten insurers** disclosed **separately** the **illiquidity premium** applied to the risk-free rates.

21

- ▶ The majority of the insurers disclosed the use of **both swap rates and government bonds** in the definition of the risk-free rates used to derive the discount rate under the bottom-up approach.
- ▶ The choice of using swap rates rather than government bonds is **mainly driven by the currency** of the cash flows.
- ▶ Some insurers reported information on the **last liquid point (LLP)** and **ultimate forward rate (UFR)** to derive the risk-free rate curve. For EUR, the disclosed UFR ranges from **2.4% to 3.45%** and the disclosed LLP varies from **20 years to 30 years**.

Risk adjustment methodology decisions

Risk adjustment technique

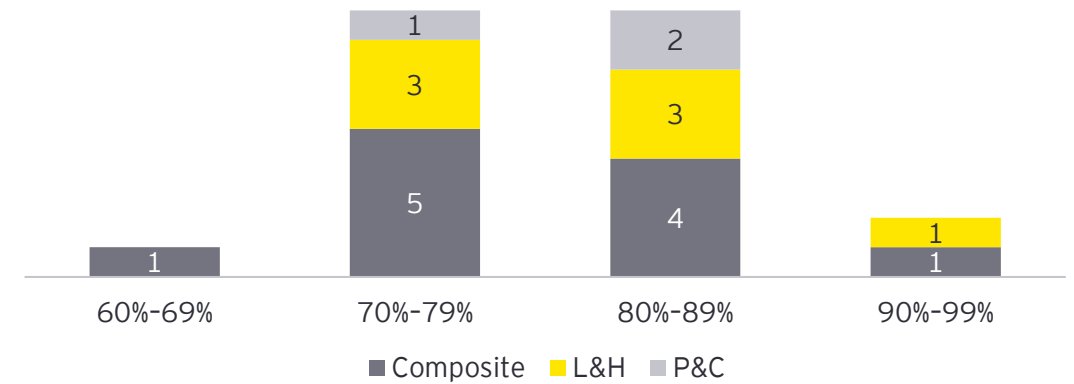
29



- ▶ Almost **all insurers** disclosed the **technique adopted to determine the risk adjustment** for nonfinancial risk under IFRS 17.
- ▶ The large majority of composite and L&H insurers, as well as all P&C insurers, disclosed the **use of a confidence-level technique** to determine the risk adjustment, with the VaR approach being the most popular.
- ▶ The **cost of capital approach** has been adopted by a number of composite insurers. These insurers mentioned using a **method similar to the risk margin** under the **Solvency II framework**, with disclosed cost of capital rates varying from 4% to 6%.
- ▶ **One L&H insurer** disclosed the use of a **margin-based approach**, which applies a margin for adverse deviation, typically in terms of a percentage of best estimate assumptions, where future cash flows are uncertain.

Risk adjustment confidence level

21

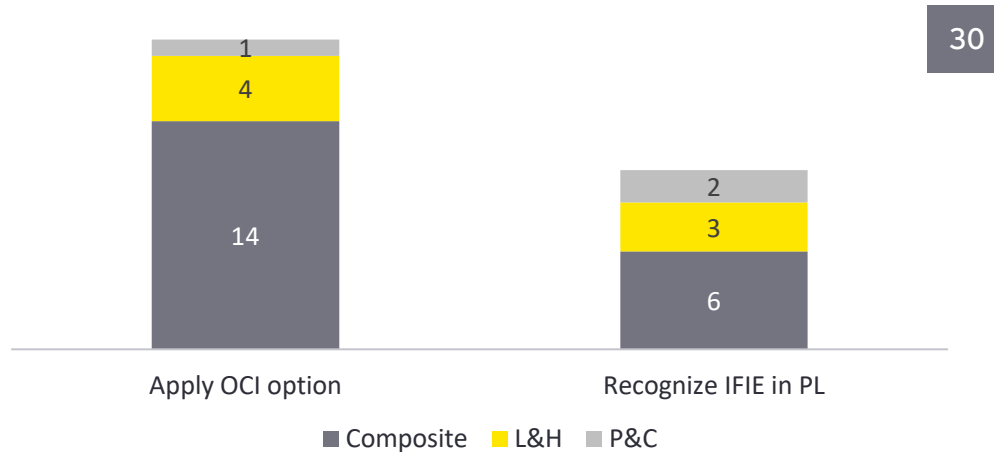


- ▶ Whereas almost all companies disclosed the risk adjustment technique, **fewer companies disclosed the confidence-level percentile** (or equivalent) that has been used in estimating the risk adjustment.
- ▶ Around half of **composite insurers** disclosed a percentile **between 70% and 79%**. The lowest value disclosed was 65%, while the highest was 90.2%.
- ▶ The **majority of L&H insurers** disclosed a percentile **above 80%**, with the highest observation being a confidence level of 92.5%.
- ▶ The **majority of P&C insurers** disclosed a value **between 80% and 90%**. The lowest value disclosed was 77%.
- ▶ Generally, the confidence level has been disclosed based on an **ultimate view basis**, but some insurers disclosed it based on a one-year basis.

Insurance finance income and expense (IFIE) policy election, coverage units and cohorts approach

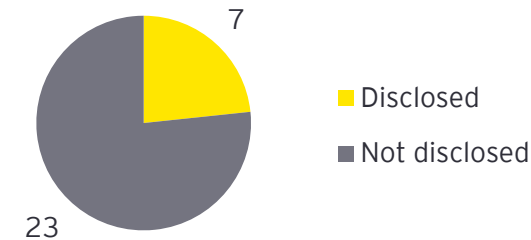
No. of insurers presented

IFIE accounting policy election



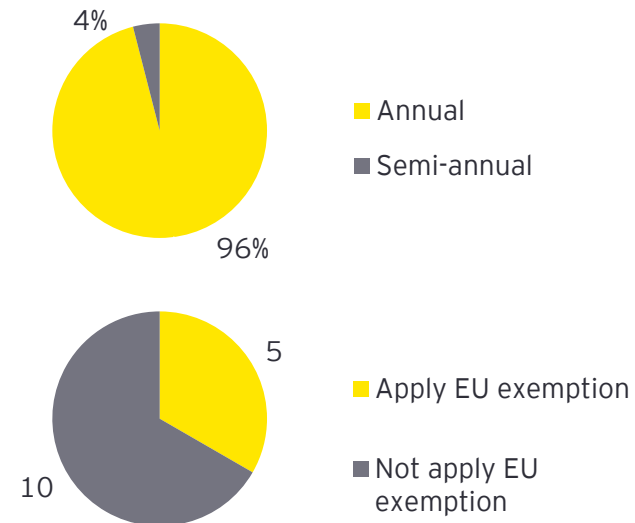
- ▶ A large majority of composite and the majority of L&H insurers elected to apply the **other comprehensive income (OCI)** option for the presentation of **insurance finance income and expense**. Some of these insurers mentioned that the OCI option will be applied only to certain portfolios (e.g., non-VFA contracts).
- ▶ The majority of P&C insurers elected to recognize insurance finance income and expenses fully in profit and loss, **not applying the OCI option**.
- ▶ The accounting policy applied on the **liability side** reflects the classification reported on the **asset side**, where the majority of insurers used a **FVOCI measurement for their debt instruments** (refer to slide 19).

CSM coverage unit



- ▶ The **large majority** of insurers **did not provide a detailed disclosure on the coverage units** for the release of the CSM in their interim report.

Cohort period



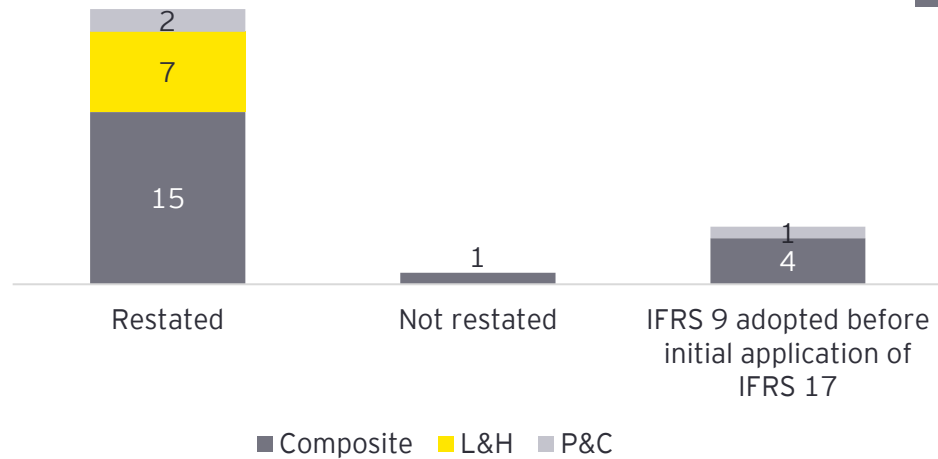
- ▶ **Fifteen insurers** disclosed information on cohorts, with all of them **using annual cohorts** to group their insurance contracts, apart from one L&H insurer that is using semi-annual cohorts.
- ▶ **Five** of the 15 insurers in our panel that are domiciled in EU reported they applied the **EU exemption** from the annual cohorts requirements.

IFRS 9 methodology decisions

No. of insurers presented

Restatement of comparatives

30



- ▶ The large majority of insurers restated IFRS 9 comparatives for 2022 on the basis of full IFRS 9 requirements or the “classification overlay” approach, which has been applied to specific financial assets.
- ▶ One composite insurer did not restate IFRS 9 comparatives, which have been presented in accordance with IAS 39 instead.
- ▶ Four composite and one P&C insurers already applied IFRS 9 requirements before the initial application of IFRS 9 on 1 January 2023.

IFRS 9 designations

4

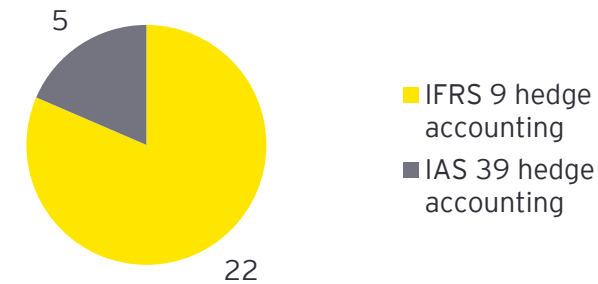
insurers disclosed applying a FVTPL measurement for their debt instruments of the insurance business, using the fair value option when necessary.

13

insurers used the fair value option to designate equity instruments at FVOCI (non-recyclable) that would otherwise been classified at FVTPL.

Hedge accounting

27



- ▶ The large majority of insurers that disclosed this information decided to apply the IFRS 9 requirements to hedge accounting (some of them mentioned to continue to apply the IAS 39 principles for macro hedging).

KPIs: operating profit and combined ratio

Methodology

Financial

Operating profit: what changed compared with IFRS 4 and IAS 39

- ▶ Insurers typically recalibrated their definition of operating profit based on IFRS 9 and IFRS 17.
- ▶ The impact of the new standards differs based on a company's definition of operating profit but is also affected by some of the accounting choices made under the new standards.
- ▶ Companies typically adjust their net profit to exclude the impact of economic factors, but mechanisms to achieve this differ.
- ▶ Some companies that present the effects of economic changes from investments and insurance liabilities in profit or loss applied an expected return measure in defining operating profit, whereas some or all such effects are already excluded from net profit for companies that present these effects in OCI.

Combined ratio: what changed compared with IFRS 4

- ▶ The combined ratio continues to be widely reported as a KPI for P&C business.
- ▶ Insurers typically updated their combined ratio based on IFRS 17 compared with IFRS 4, for example, by including the effect of discounting, the level of expenses included and increased effect of losses from onerous contracts.
- ▶ However, some differences are still observed between insurers in how they calculate the combined ratio, for example, whether net or gross of reinsurance ceded, type of expenses included and treatment of the unwinding of interest.
- ▶ Few insurers are providing their combined ratio on both discounted and undiscounted basis.

Operating profit: what did companies report

- ▬ Generally, insurers that disclosed the operating profit showed, compared with the net profit, a **more balanced change** in operating profit from HY 2022 to HY 2023 compared with the change in net profit.
- ▶ One common reason for this was insurers often **excluding the impact of economic factors from operating profit**, with this effect being particularly pronounced for insurers reporting the effects from these economic factors in profit or loss.
- ▼ For the insurers showing a decrease, the operating profit is based on profit before tax and the decrease is driven by **the strong favourable effect of changes in discount rates recognized in profit or loss during HY 2022**.

Combined ratio: what did companies report

- ▼ The majority of composite insurers and one P&C insurer showed an improvement (i.e., a decrease) in their combined ratio for the first half of 2023, as compared with the first half of 2022.
- ▶ One common reason for this decrease of combined ratio is the higher impact of discounting as discount rates during the first half of 2023 were consistently higher compared with the first half of 2022.
- ▲ On the other hand, six composite insurers presented a deterioration (i.e., increase) in their combined ratio during the year, mainly driven by heavier losses mostly due to larger natural catastrophe claims experience.

Appendix

Selected IFRS 17 and IFRS 9 financial metrics

IFRS 17 or 9	Metric	Definition	Page ref.
IFRS 17 and IFRS 9	Shareholder's equity change	IFRS 17 and 9 equity vs. IFRS 4 and IAS 39 equity	7
IFRS 17 and IFRS 9	Net profit margin	$\frac{\text{Net Profit}}{\text{Insurance revenue}}$	8
IFRS 17 and IFRS 9	Insurance service margin	$\frac{\text{Insurance service results}}{\text{Insurance revenue}}$	9
IFRS 17	Ratio of CSM to ICL (GM and VFA)	$\frac{\text{Total CSM}}{\text{Insurance contract liabilities (ICL) (GM and VFA)}}$	10
IFRS 17	Ratio of RA to ICL	$\frac{\text{RA}}{\text{Total ICL}}$	11-12
IFRS 17	CSM release ratio	$\frac{\text{CSM release}}{\text{Total CSM}}$	13
IFRS 17	CSM growth ratio	$\frac{\text{New Business CSM}}{\text{CSM release}}$	14
IFRS 17	New business CSM weight	$\frac{\text{New Business CSM}}{\text{Total CSM}}$	15
IFRS 17	Loss component weight	$\frac{\text{Loss Component}}{\text{Total ICL}}$	16
IFRS 17	Experience variance weight (GM and FA)	$\frac{\text{Experience variance (GM and VFA)}}{\text{Insurance service results (GM and VFA)}}$	17
IFRS 17	Reinsurance CSM weight	$\frac{\text{Reinsurance contracts held CSM}}{\text{Insurance contracts issued CSM}}$	18
IFRS 9	IFRS 9 accounting models	$\frac{\text{Debts FVOCI FVPL AC}}{\text{Total debts}} \quad \frac{\text{Equity FVOCI FVPL}}{\text{Total equity}}$	19
IFRS 9	ECL allowance	$\frac{\text{ECL Stage 1 and 2 or 3}}{\text{Debt insutruments at FVOCI and AC}}$	19

Selected IFRS 17 and IFRS 9 Comparative methodologies and KPIs

IFRS 17 or 9	Methodology decision	Rationale	Page ref.
IFRS 17	Discount rate approach and curve	Overview of the approach (“bottom-up” vs. “top-down”) and the curve used to determine the IFRS 17 discount rate	21
IFRS 17	Risk adjustment technique	Overview of the technique used to determine the IFRS 17 risk adjustment for nonfinancial risk	22
IFRS 17	Risk adjustment confidence level	Overview of the confidence level applied to determine the IFRS 17 risk adjustment for nonfinancial risk	22
IFRS 17	IFIE accounting policy election	Overview of the accounting policy election regarding the presentation of IFIE in P&L or disaggregate between P&L and OCI	23
IFRS 17	CSM coverage units	Overview of the approach used to identify the coverage units required in order to release the CSM in P&L	23
IFRS 17	Cohorts period	Overview of the period used to determine the cohort requirements to group insurance contracts	23
IFRS 9	Restatement of comparatives	Overview of the decision made regarding restating IFRS 9 comparatives for 2022	24
IFRS 9	Fair value option	Overview of the use of the FV option to designate debts at FVTPL and equity at FVOCI as permitted by IFRS 9	24
IFRS 9	Hedge accounting	Overview of the accounting policy election regarding hedge accounting (continue to apply IAS 39 requirements vs. apply new IFRS 9 requirements)	24
IFRS 17 and 9	Operating profit	Overview of the changes compared with IFRS 4 and IAS 39 and of the results reported	25
IFRS 17	Combined ratio	Overview of the changes compared with IFRS 4 and of the results reported	25

List of insurers

Insurer	Segment	Geography
a.s.r.	Composite	Continental Europe
Achmea	Composite	Continental Europe
Admiral Group	P&C	UK
Aegon	Composite	Continental Europe
Ageas	Composite	Continental Europe
AIA	L&H	Asia-Pacific
Allianz	Composite	Continental Europe
Aviva	Composite	UK
AXA	Composite	Continental Europe
CNP Assurances	L&H	Continental Europe
Generali	Composite	Continental Europe
Great-West Lifeco	L&H	Americas
Hiscox	P&C	UK
Intact	P&C	Americas
Legal and General	L&H	UK

Insurer	Segment	Geography
Manulife	L&H	Americas
Mapfre	Composite	Continental Europe
Munich Re	Composite	Continental Europe
NN Group	Composite	Continental Europe
Ping An	Composite	Asia-Pacific
Prudential Plc	L&H	UK
QBE	Composite	Asia-Pacific
Sampo	Composite	Continental Europe
Sanlam	Composite	Africa
SCOR	Composite	Continental Europe
Sun Life	L&H	Americas
Swiss Life	L&H	Continental Europe
Talanx	Composite	Continental Europe
Unipol	Composite	Continental Europe
Zurich	Composite	Continental Europe

Glossary

Abb.	Full expression
AC	Amortized cost
BEL	Best estimate liabilities
CSM	Contractual service margin
CU	Currency
ECL	Expected credit loss
EU	European Union
EUR	Euro
FVA	Fair value approach
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
FY	Fiscal year
GM	General model
HY	Half year
IFRS	International Financial Reporting Standard
ICL	Insurance contracts liabilities
IFIE	Insurance finance income and expenses

Abb.	Full expression
ILP	Illiquidity premium
LFRC	Liability for remaining coverage
L&H	Life and health
LIC	Liability for incurred claims
LLP	Last liquid point
MRA	Modified retrospective approach
NB	New business
OCI	Other comprehensive income
PAA	Premium allocation approach
P&C	Property and casualty
PL	Profit and loss
PP	Percentage Point
RA	Risk adjustment for non-financial risk
UFR	Ultimate forward rate
VaR	Value at risk
VFA	Variable fee approach



Thank you

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