Reporting under IFRS 17 and IFRS 9

Observations from “Year-End” 2023 financial statements published by insurers

June 2024

Building a better working world

Introduction

Observations were taken from IFRS 17 and IFRS 9 disclosures published in annual financial statements as of 31 December 2023 by a panel of 45 international insurance groups.

Background:

- Insurers have been 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.
- In 2024, insurance groups published their first set of annual financial statements, applying IFRS 17 and IFRS 9. Some of the insurers also published IAS 34 interim accounts, applying IFRS 17 and IFRS 9, during 2023.

Analysis performed:

- We selected a panel of 45 insurers that apply IFRS as the accounting framework in their consolidated financial statements.
- For these insurers, we analyzed the disclosures included in their annual financial statements as at 31 December 2023 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.
- For more information on the impacts of IFRS 17 and IFRS 9 at transition, please refer to our previous publication at the following link.

Insurers by geography:

25	09	06	03	02
Based in **continental Europe**	Based in **UK**	Based in **Americas**	Based in **Asia-Pacific**	Based in **Africa**

Segment:

- **Life and health: Twelve groups** underwrite only life and health (L&H) business, which includes short- and long-term savings, and retirement products.
- **Composite: Twenty-eight 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). For the insurance part of bancassurance conglomerates, the information of the insurance subsidiaries has been used where available, otherwise the consolidated accounts of the bancassurer have been used.
- **P&C: Five groups** underwrite P&C business only.

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1 Key highlights

Key highlights

Release of risk adjustment to insurance service result

0%↔5%

15

Fifteen insurers reported a **release of the RA of the LFRC** to the insurance service result in the **range from 0% to5%.**

Ratio of risk adjustment to PVFCF LFRC

0%↔3%

27

Twenty-seven insurers reported a **ratio of Risk Adjustment to present value of future cash flows** of the LFRC in the **range from 0% to** 3%.

New business CSM weight

5%↔10%

20

Twenty insurers reported a **ratio of new business CSM to new business present value of cash inflows** (expected premiums) in the **range from 5% to 10%.**

CSM release ratio

9%↔12%

15

Fifteen insurers reported the proportion of the **CSM released** into profit or loss for the current year in the **range between 9% and** 12%.

CSM composition by transition approaches

Average of 39% Fair Value Approach

The average proportion of the CSM at the end of 2023 which has been measured using the **Fair Value Approach at transition is** 39%.

CSM run-off pattern

Average of 44% in more than 10 years

The average proportion of the remaining CSM at the end of 2023 that is **expected to be recognized in profit or loss in more than 10 years is 44%**

Reinsurance CSM weight

1% ↔ 5%

20

The ratio of **reinsurance CSM** to the CSM of insurance contracts issued was **between 1% and 5%** for 20 insurers.

Loss component weight in LFRC

0%↔0.3%

19

Nineteen insurers reported the proportion of the **loss component** to be in the range from **0% to 0.3%** of the profitable component of the LFRC.

Note: a glossary of terms is available at page 39

● No. of insurers

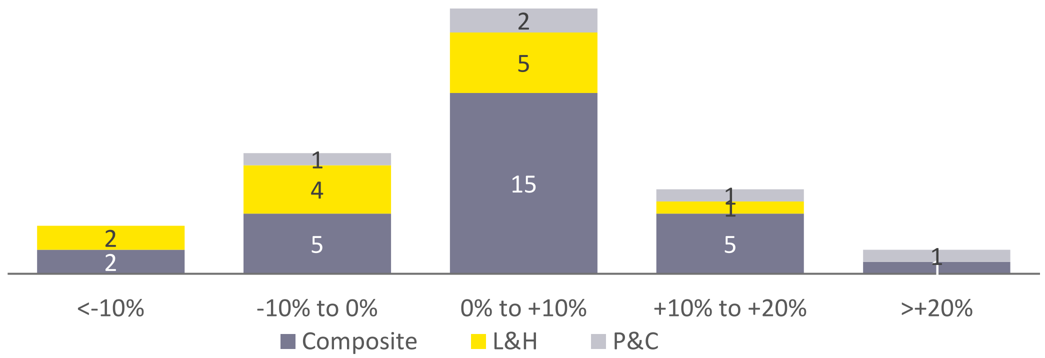
2

Financial metrics analysis

Shareholder’s equity change

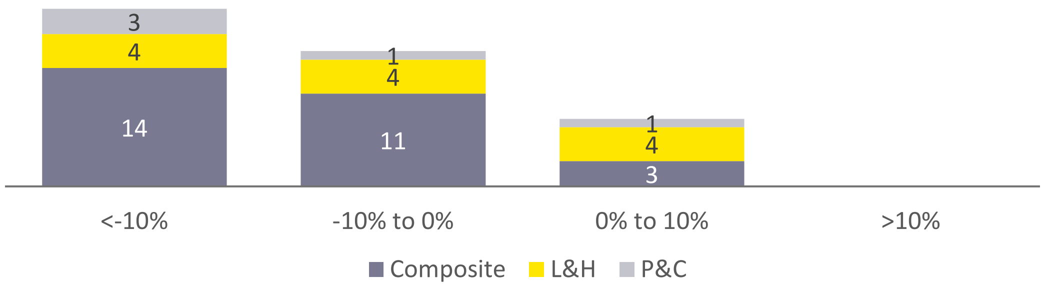
IFRS 17 and IFRS 9 shareholder’s equity change from 1 January 2023 to 31 December 2023

No. of insurers presented: 45



IFRS 17 and IFRS 9 shareholder’s equity change from 1 January 2022 to 31 December 2022

No. of insurers presented: 45



During 2023: increase in equity mainly due to a more stable interest rate environment observed during the year

- The majority of the insurers showed an increase in the equity balance during 2023 mainly caused by the positive net result of the year combined with a consistently higher and more stable interest rate environment compared to 2022.
- For some insurers that reported a decrease in equity, that was mainly caused by specific circumstances, such as the completion of a share buyback program during the year.
- The percentage impact varied across insurers, with a total range of change between −24% and +52%.

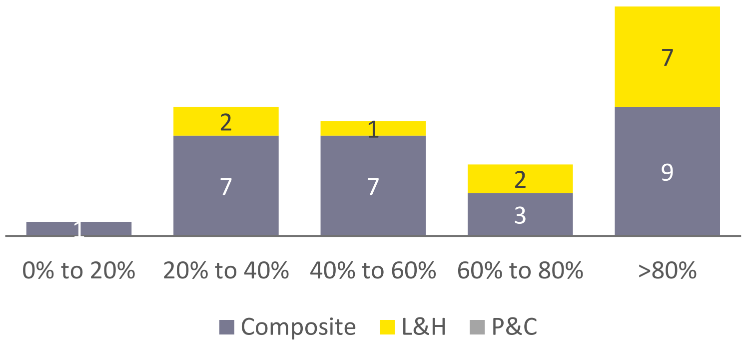
During 2022: decrease in equity mainly due to the interest rates increase observed in the year

- A large majority of insurers reported decreased equity during 2022 mainly driven by the effect of a strong increase in interest rates observed during the year which determined a decrease of the fair value of the assets that has been only partially offset by a corresponding decrease of the measurement of their insurance liabilities (discounted at current rates under IFRS 17).
- The percentage impact varied across insurers, mainly in the range between −40% and +10%. This reflects, the much more volatile interest rate environment (strong increase of interest rates) during 2022 when compared with 2023.

Insurance service result: analysis of the balance on 31 December 2023

Release of CSM (as % of the insurance service result)

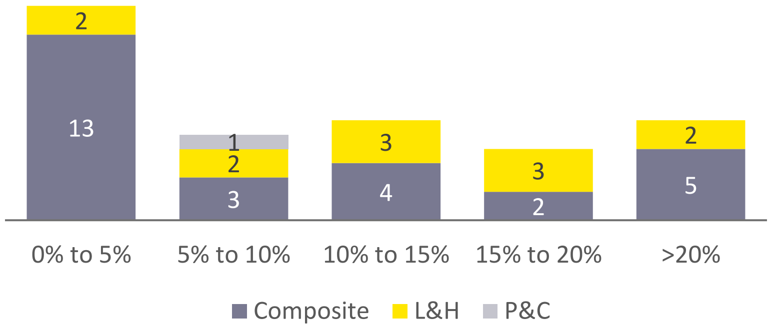
No. of insurers presented: 39



- The release of the CSM is generally the key driver of the insurance service result. For sixteen insurers, it contributed to more than 80%.

Release of Risk Adjustment of the LFRC (as % of the insurance service result)

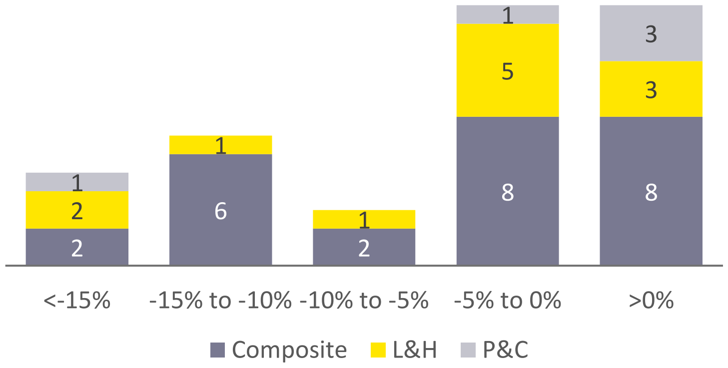
No. of insurers presented: 39



- The contribution from the release of RA to Insurance Service Result varied across insurers. Most common range is up to 5%. Seven insurers presented a more significant contribution (>20%).

Losses and reversal of onerous contract losses in the period (as % of the insurance service result)

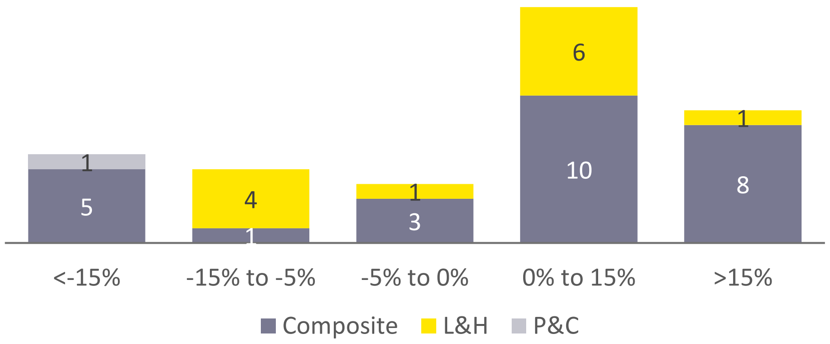
No. of insurers presented: 43



- For the majority of insurers, the movement is negative (<0%), meaning that the new losses were higher than the reversal of past losses during the period.

Experience variance on current service (as % of the insurance service result)

No. of insurers presented: 40



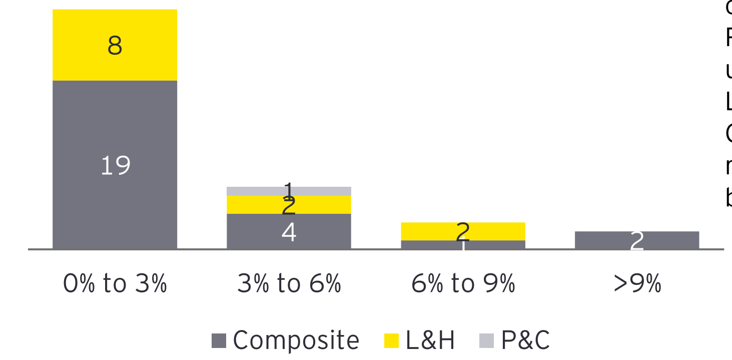
- The majority of L&H and Composite insurers presented a positive (>0%) experience variance. For P&C, this metric is less relevant, given the extensive use of the PAA measurement model.

EY

Risk Adjustment (RA) ratio to Present Value of Future Cash Flows (PVFCF) on Liability for Remaining Coverage (LFRC) and Liability for Incurred Claims (LIC)

RA ratio to PVFCF on LFRC for General Model and VFA business on 31 December 2023

No. of insurers presented: 39

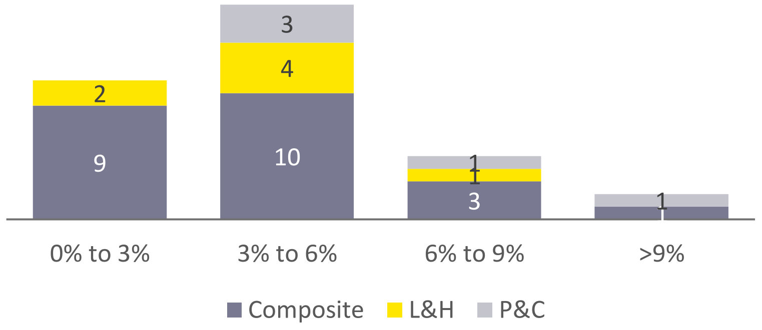


- The majority of insurers presented a Risk Adjustment ratio up to 3% for the Liability for Remaining Coverage (LFRC). This mainly relates to Life business.

RA ratio to PVFCF on LIC (all measurement models) on 31 December 2023

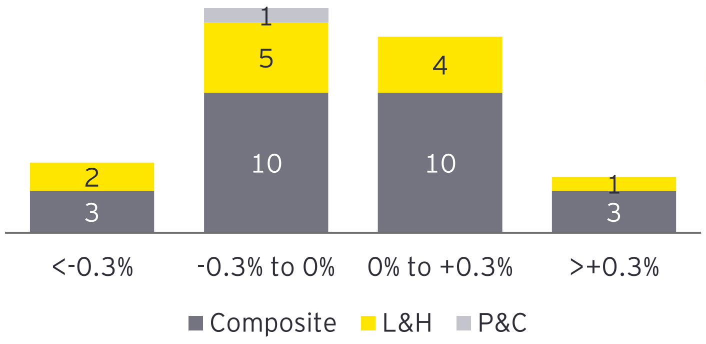
- The RA ratio for the LIC is generally higher than the ratio of the LFRC. The majority of insurers ranged between 3% and 6%. This mainly relates to non-life business.

No. of insurers presented: 35



RA ratio to PVFCF on LFRC: 31 December 2023 vs. 31 December 2022 (YE 2022, pp change)

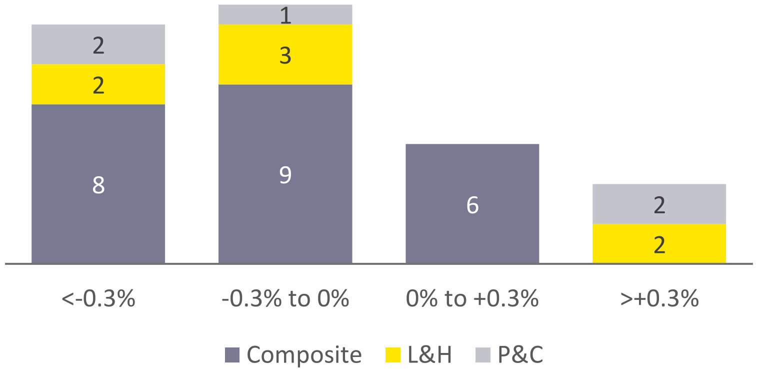
No. of insurers presented: 39



- The RA ratio for both LFRC and LIC between YE 2023 and YE 2022 has been relatively stable, with the large majority of increases and decreases being between -0.3% and +0.3%.
- Looking at the RA amount (for both LFRC and LIC) in absolute terms, 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, resulting in a decrease in PVFCF. The RA movement between YE 2023 and YE 2022 has been relatively stable in the light of less pronounced interest rate changes during YE 2023.

RA ratio to PVFCF on LIC: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

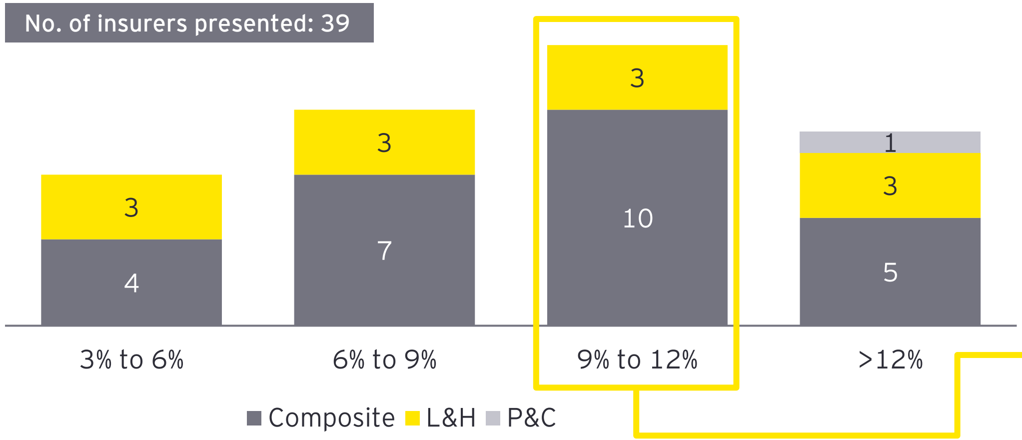
No. of insurers presented: 35



Risk Adjustment release ratio: ratio of RA release in the period to total RA at the start of the period

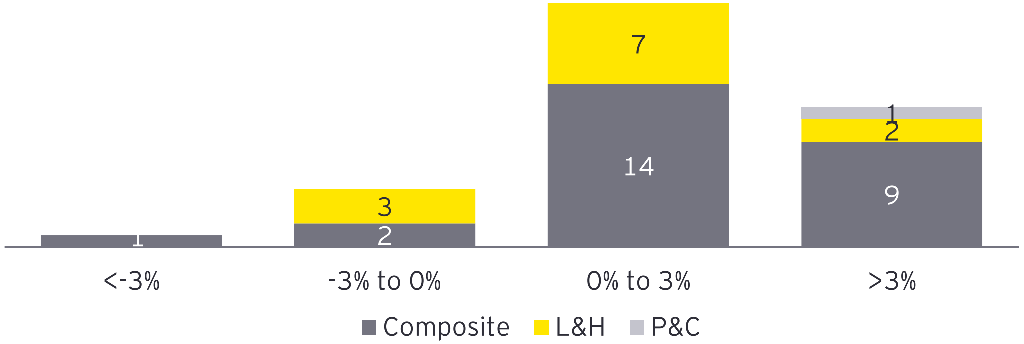
RA release ratio on LFRC on 31 December 2023

No. of insurers presented: 39



RA release ratio on LFRC: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 39



What the metric is about

It represents the amount of RA released to profit and loss as a percentage of the total RA balance of the liability for remaining coverage at the start of the period.

This ratio is available for insurers that calculate the LFRC using either the GM or the VFA and provides some insights into the risk release and its contribution to the profitability of the insurer (the RA release is a component of insurance revenue).

Key takeaways on 31 December 2023

- The amount of RA for insurance contracts issued released into profit or loss in 2023 varied across insurers, with the majority of composite and L&H insurers presenting a RA release ratio between 9% and 12%.
- The most common range observed for the RA release ratio is the same as the one observed for the CSM release ratio (see slide 13).
- This metric is less relevant for P&C insurers that measure all or the majority of their business under the PAA which does not include an explicit RA as part of the LFRC.

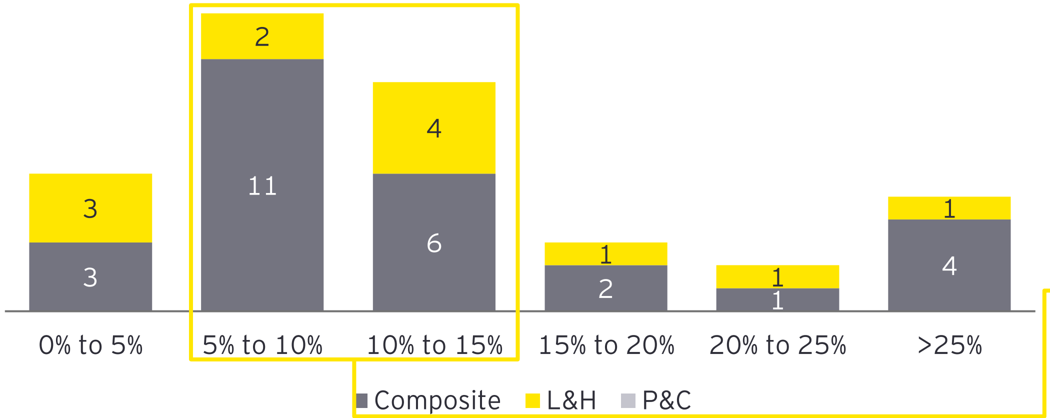
Insights from comparatives on 31 December 2022

- The large majority of composite and L&H insurers presented an increase in their YE 2023 RA release ratio as compared to the YE 2022 one, and for the majority of them the increase was up to 3% (the higher increase was 8% which has been observed for two composite insurers).
- For the insurers that presented a decrease in their RA release ratio, the most common decrease was up to -3%, while one composite disclosed -10%.

Ratio of CSM to present value of future cash flows (business under the GM and VFA models)

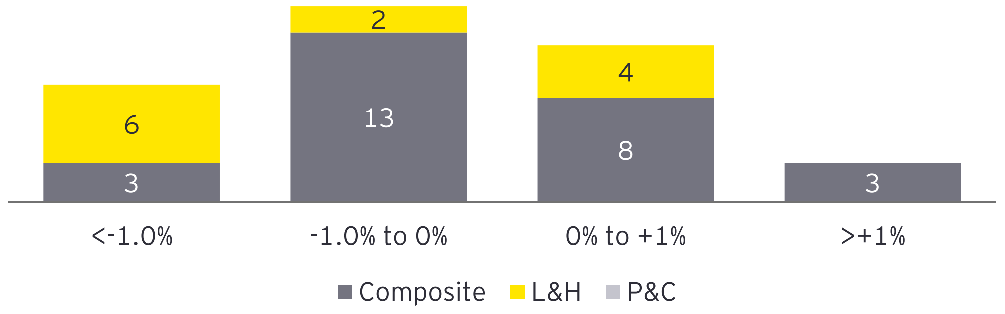
Ratio of CSM to PVFCF (LFRC under GM and VFA) on 31 December 2023

No. of insurers presented: 39



Ratio of CSM to PVFCF: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 39



What the metric is about

It represents the weight of the CSM relative to the present value future cash flows of the liability for remaining coverage, covering the GM and VFA business. The higher the percentage, the higher the relative value of the CSM, which means there is a higher proportion of remaining future profitability within the carrying amount of the LFRC of the insurance contracts.

Key takeaways on 31 December 2023

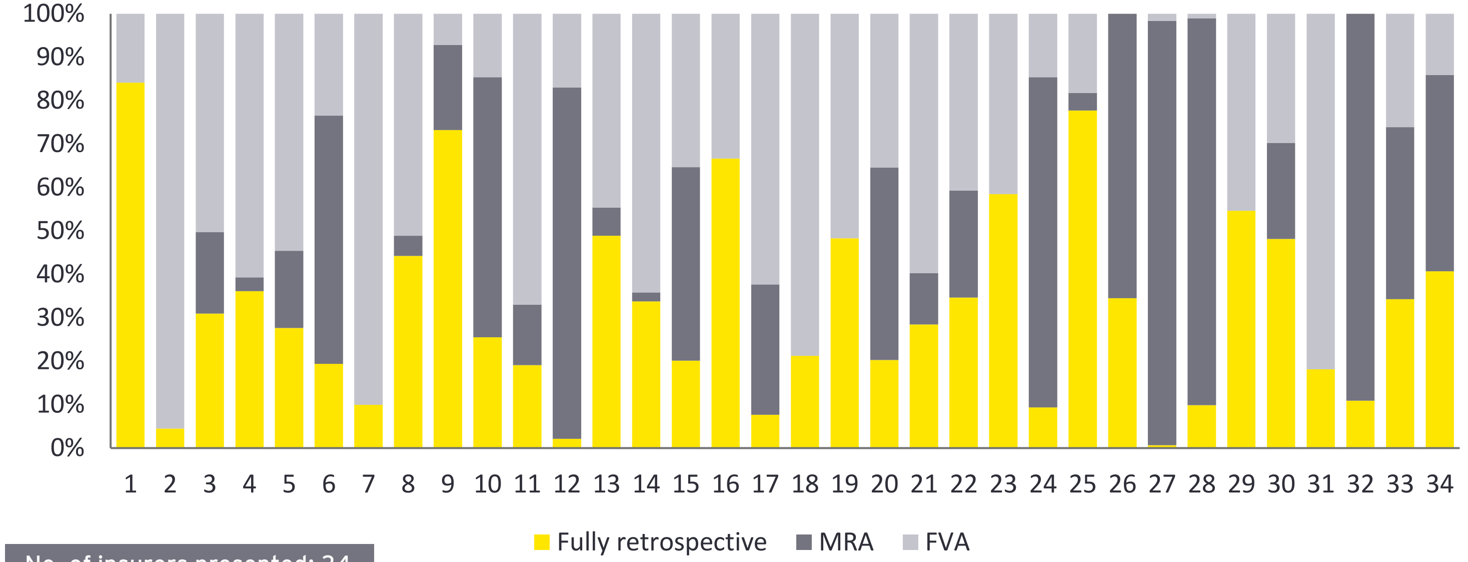
- The majority of insurers presented a ratio ranged between 5% to 15%.
- This ratio is still heavily influenced by the methods applied at transition. One of the drivers of higher CSM for profitable insurance contracts is the use of the fully retrospective and modified retrospective approaches to quantify the CSM at transition for certain types of business, as opposed to the use of the fair value approach, which generally resulted in a lower CSM.
- The total range observed varied across insurers with the full range being between 3% and 60%.

Insights from comparatives on 31 December 2022

- The majority of insurers showed a slight decrease in the YE 2023 ratio compared with the YE 2022 mainly concentrated between -1% and 0%.
- One factor contributing to this is the run-off of profit from existing business, exceeding the addition of future profits from new business.

CSM composition by transition approaches: ratio of CSM split by MRA, FVA and Other to CSM end of the period

CSM composition by transition approaches on 31 December 2023



No. of insurers presented: 34

What the metric is about

Insurers are required to disclose the impacts of transition approaches to establishing the CSM on the current period for all subsequent periods until the contracts are derecognized.

This metric provides insights on the amount of CSM that has been created using the simplified approaches available at transition (MRA or FVA), reflecting the differences in transition approaches applied across insurers.

Some insurers included the contracts subject to the EU exemption from applying annual cohorts in a separate column in the disclosure because the groups existing at the date of transition are open to new contracts recognized after transition. These insurers have not been included in the diagram.

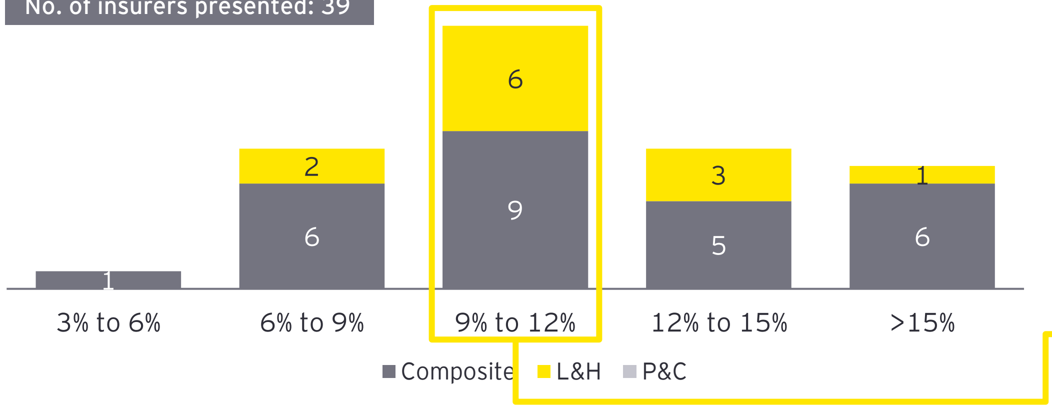
Key takeaways as on 31 December 2023

- **Fully retrospective:** in this bucket insurers presented the contracts existing at transition for which they applied the **full retrospective approach**, as well as the **new contracts recognized after the transition date**. The average percentage of CSM disclosed in this bucket is 33%, while the highest percentage is 84% which has been observed for one composite insurer.
- **Modified retrospective approach (MRA):** the average percentage of CSM disclosed in this bucket is 28%, while the highest percentage is 97% which has been observed for one composite insurers.
- **Fair value approach (FVA):** the average percentage of CSM disclosed in this bucket is 39%, while the highest percentage is 96%, which has been observed for one composite insurer.

CSM release ratio: ratio of CSM release in the period to total CSM at the end of the period prior to release

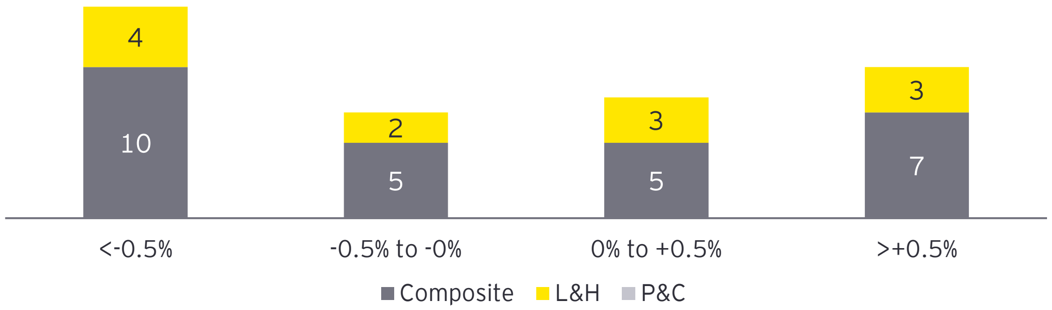
CSM release ratio on 31 December 2023

No. of insurers presented: 39



CSM release ratio: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 39



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 prior to the amount released into profit or loss during the period. This ratio provides some indication into the runoff period of the CSM, the higher the ratio, the shorter the remaining expected CSM release period (assuming profitability stays comparable).

Further information is available in the following slide, which shows the run-off pattern of the CSM for the following years.

Key takeaways on 31 December 2023

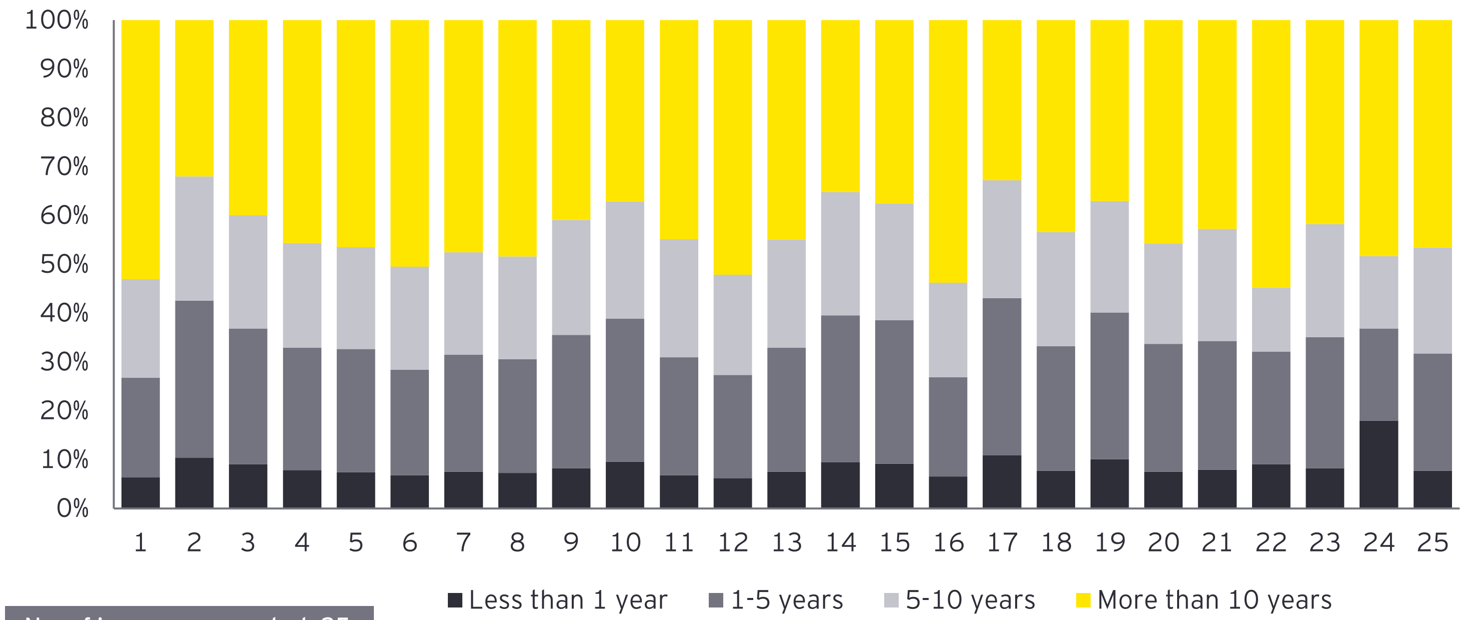
- The amount of CSM for insurance contracts issued released into profit or loss in 2023 varied across insurers, with the majority of composite and L&H insurers presenting a CSM release ratio between 9% and 12%. For these insurers this, as an indication, points to a run-off period of around 10 years for the existing CSM (assuming current period CSM release is representative of the remaining CSM).
- The highest CSM release ratio has been observed for three composite insurers with a large P&C business, which presented a ratio of around 50%.

Insights from comparatives on 31 December 2022

- The slight majority of composite and L&H insurers presented a decrease in their YE 2023 CSM release ratio as compared to the YE 2022 one, and for the majority of them the decrease was above -0.5% (the higher observable decrease was -4%).
- For the insurers which presented an increase in their CSM release ratio, the most common increase range was above 0.5%, with the higher observable increase at 11%).
- This indicates that overall CSM release ratio has been fairly stable between the two periods.

CSM runoff pattern: CSM recognized in profit or loss during specified time bands (less than 1 year, between 1 and 5 years, between 5 and 10 years, more than 10 years)

CSM run-off pattern on 31 December 2023



No. of insurers presented: 25

What the metric is about

Insurers disclosed when they expect the CSM to be recognized in profit or loss in future years, but the type of disclosure varied.

In order to compare results, we have for the purpose of our analysis, selected specific time bands. We captured CSM release information to the extent that it was possible to fit the time bands disclosed by the insurers into our specified time bands.

This metric provides insights on insurer's CSM runoff pattern for insurance contracts issued, including both life business (which generally has a longer runoff period) and non-life business (which generally has a shorter runoff period).

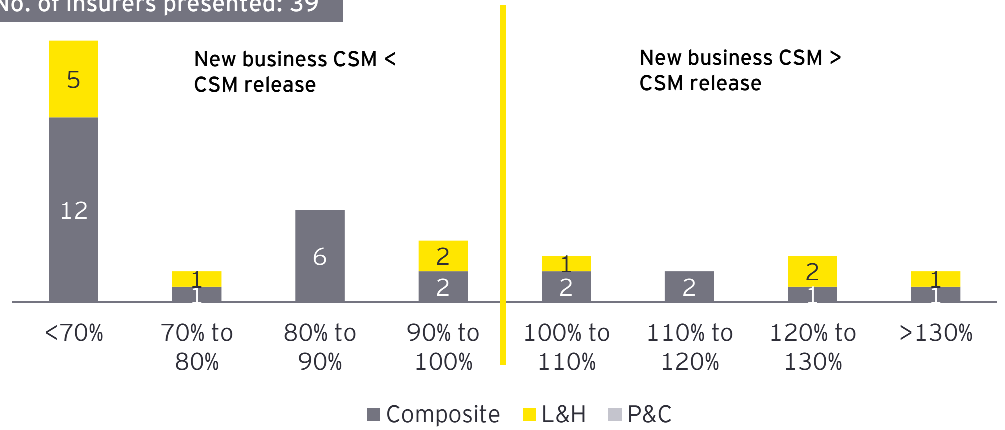
Key takeaways as on 31 December 2023

- **Less than 1 year:** the average amount of CSM that is expected to be recognized during this time band is 9% (total range between 6% and 18%).
- **Between 1 and 5 years:** the average amount of CSM that is expected to be recognized during this time band is 26% (total range between 19% and 32%).
- **Between 5 and 10 years:** the average amount of CSM that is expected to be recognized during this time band is 22% (total range between 13% and 25%).
- **More than 10 years:** the average amount of CSM that is expected to be recognized during this time band is 44% (total range between 32% and 55%).

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

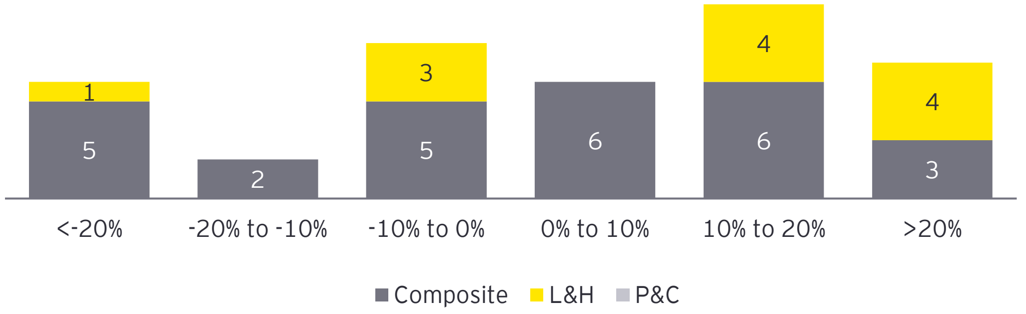
CSM growth ratio on 31 December 2023

No. of insurers presented: 39



CSM growth ratio: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 39



What the metric is about

It provides an indication of the growth direction of the unearned CSM of insurers. A ratio above 100% means that the amount of new business CSM recognized in the period is higher than the amount of CSM released into profit or loss during the period while a ratio below 100% means that the amount of new business CSM recognized in the period is lower than the amount of CSM released into profit or loss.

Key takeaways on 31 December 2023

- The large majority of insurers presented an amount of CSM released that is higher than the amount of CSM added for new business during the twelve months ending on 31 December 2023. In particular, 17 insurers presented a ratio below 70%.
- The amount of CSM released in profit or loss is derived as the last step in the CSM calculation, which means that it includes other adjustments such as the interest accretion for GM contracts and the entity share of the underlying items as well as the "over return" of the "real world" over the "risk-free" rates for VFA contracts.
- Some insurers present as part of their financial communication the combined effect of new business with the above adjustments (including the CSM release) as an "organic movement" or a "normalized CSM growth".

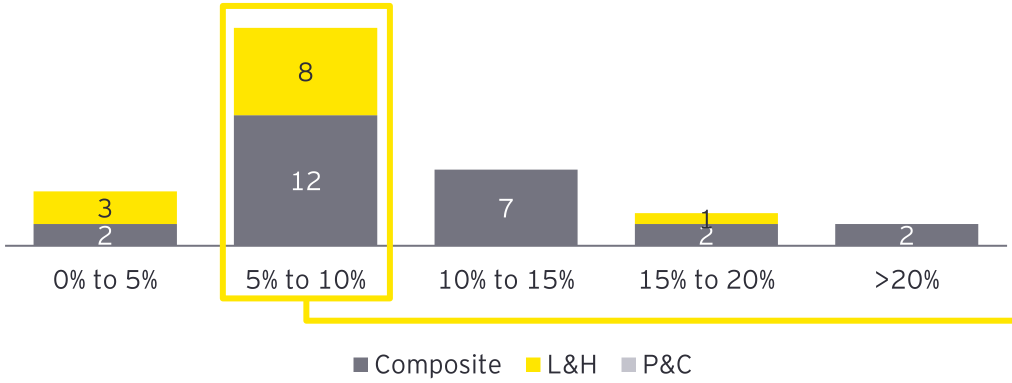
Insights from comparatives on 31 December 2022

- The majority of composite and L&H insurers observed an improvement in the YE 2023 CSM growth ratio as compared with that for YE 2022, which for some of them was above 20% due to a strong increase in the new business CSM during 2023.
- For 4 insurers this led to a YE 2023 ratio being higher than 100%, while for the others, it contributed to an improvement to the ratio which remained below 100%.

New Business CSM weight: ratio of new business CSM to new business present value of cash inflows (expected premiums)

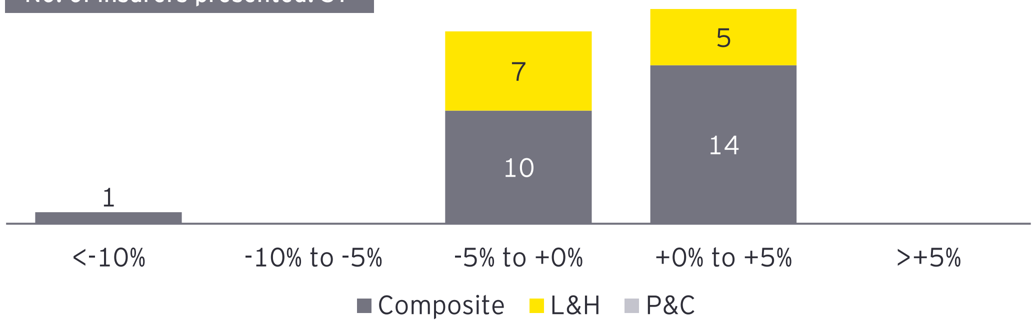
New business CSM weight on 31 December 2023

No. of insurers presented: 37



New business CSM weight: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 37



What the metric is about

It represents the weight of the CSM from new business in the period compared to the amount of present value of cash inflows (expected premiums) recognized for the new business in the period. This metric provides an indication regarding profitability of new business. The higher the ratio, the higher the amount of new unearned future profit recognized by the insurer during the period.

Key takeaways as on 31 December 2023

- The majority of insurers presented a ratio which is in the 5% to 10% range. This % highlights the profit they expect to earn from the new business written in the period.
- The lowest percentage has been observed for two composite insurers, which presented a weight of 1% mainly related to their life business.
- The highest percentage has been observed for two composite insurers, which presented a weight above 20%, in particular, one insurer disclosed 26% mainly related to its non-life business measured under the general model.

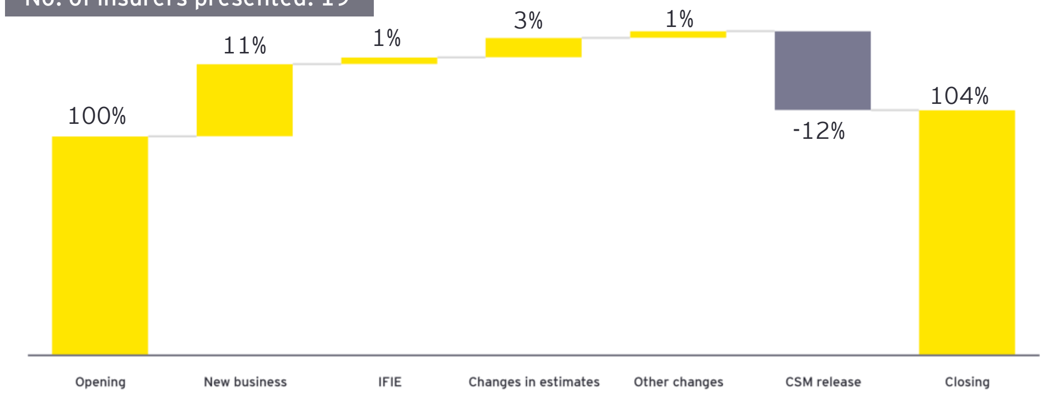
Insights from comparatives on 31 December 2022

- Around half of composite and L&H insurers presented an increase in the YE 2023 new business CSM weight ratio as compared with that for YE 2022 between 0% to 5%. The other half of insurers presented a decrease between -5% and 0%.

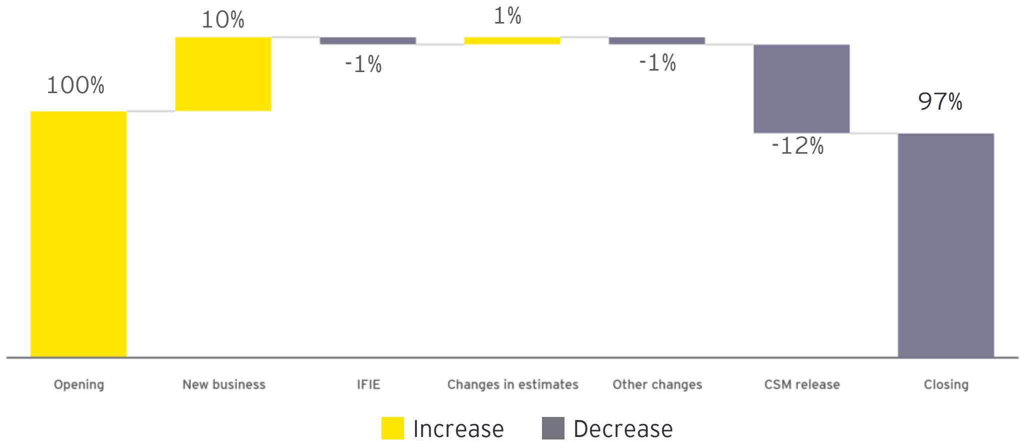
Insurance CSM roll-forward: analysis of the CSM movements over the period for GM and VFA business

Insurance CSM roll-forward analysis on 31 December 2023

No. of insurers presented: 19



Insurance CSM roll-forward analysis on 31 December 2022



What the metric is about

We analyzed the CSM roll-forward figures for insurance contracts issued of all insurers with the Euro as reporting currency and presented an illustrative CSM roll-forward table, based on the combined CSM movements across these insurers, with the CSM at the start of the period set to 100%.

Key takeaways on 31 December 2023

The CSM balance increased by 4% during 2023 due to the following movements:

- **New business/CSM release:** the amount of CSM release in profit or loss has been generally slightly higher than the amount of CSM added for new business
- **Insurance finance income and expense (IFIE):** typically includes the accretion of interest at locked-in rate for GM contracts. A few insurers also appear to include other measurement effects, particularly from changes in the shareholder's share of the underlying items of their VFA contracts.
- **Changes in estimates:** includes the effect of changes in estimates that relate to future services, driven by variances and actuarial assumptions changes.
- **Other changes:** includes various elements, for example foreign currency effects or changes in the composition of the insurance company.

Key takeaways on 31 December 2022

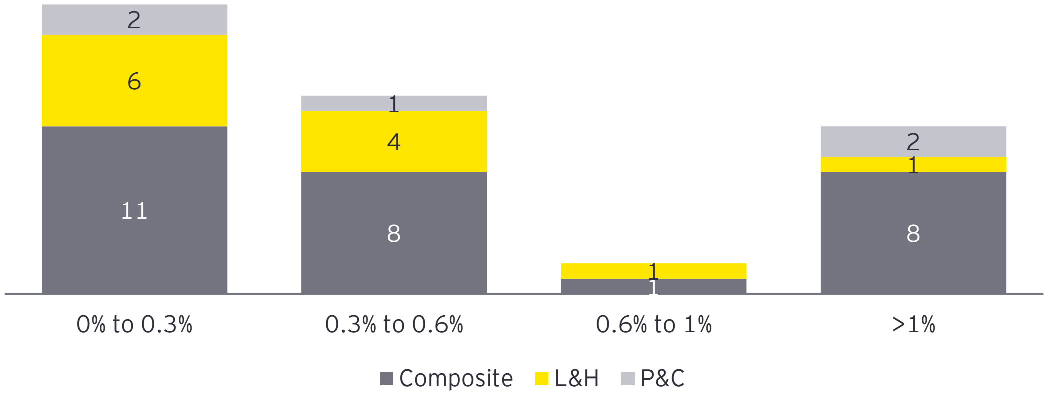
The CSM balance decreased by 3% during 2022. The most notable effects are:

- **Lower insurance finance income and expense and less favorable changes in estimates:** likely to be impacted by the strong increase in interest rates during 2022, which could lead to a reduction of the CSM through a lower shareholders' share of underlying items, with both insurance finance income and expense and changes in estimates being 2% lower compared to 2023.
- **New business CSM:** being lower than 2023 by 1%.

Loss component weight: ratio of LFRC loss component to LFRC excluding loss component

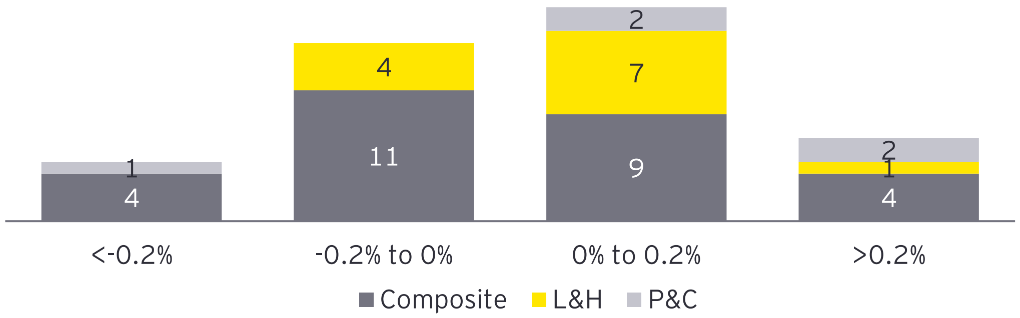
Loss component weight on 31 December 2023

No. of insurers presented: 45



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

No. of insurers presented: 45



What the metric is about

It represents the ratio of the loss component of the liability of remaining coverage to the amount of the liability for remaining coverage excluding the loss component (profitable component). This metric provides insight on the size of onerous business. The higher the ratio, the higher the amount of onerous contracts recognized.

Key takeaways on 31 December 2023

- The large majority of insurers presented a loss component weight ratio below 1%, with the most common range being 0% to 0.3%.
- Eleven insurers, the majority of which are composite insurers, presented a loss component weight above 1%, with the highest observed ratio being 7% mainly due to onerous non-life business.

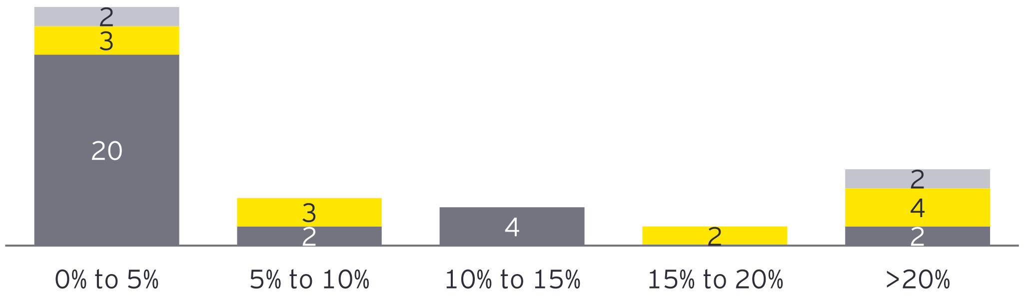
Insights from comparatives on 31 December 2022

- The majority of insurers observed a slight increase in the YE 2023 loss component weight ratio as compared with the YE 2022 weight ratio, with the most common range being 0% to 0.2%.

Loss recovery component weight: ratio of reinsurance held loss recovery component to underlying loss component

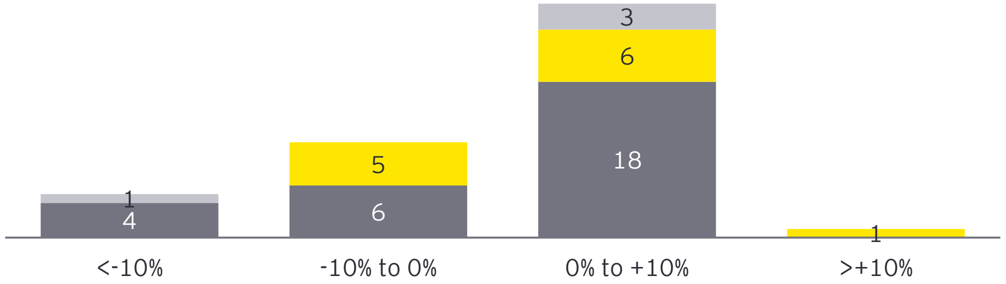
Loss recovery component weight on 31 December 2023

No. of insurers presented: 44



Loss recovery component weight: 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 44



What the metric is about

It represents the ratio of the loss recovery component of the asset for remaining coverage to the loss component of the liability for remaining coverage. This metric provides insight into the expected recoverability from reinsurance contracts held of the losses on the underlying insurance contracts issued. The higher the ratio, the higher the portion of underlying losses that is recoverable from ceded reinsurance.

Key takeaways on 31 December 2023

- The loss recovery component weight ratio varied across insurers, as this is depending on the amount of coverage provided by the reinsurance contracts held.
- The majority of insurers presented a loss recovery component weight ratio up to 20%, with the most common range being 0% to 5%.
- Eight insurers, the majority of which are L&H insurers, presented a loss recovery component weight ratio above 20%, with the highest observable ratio being 100%.

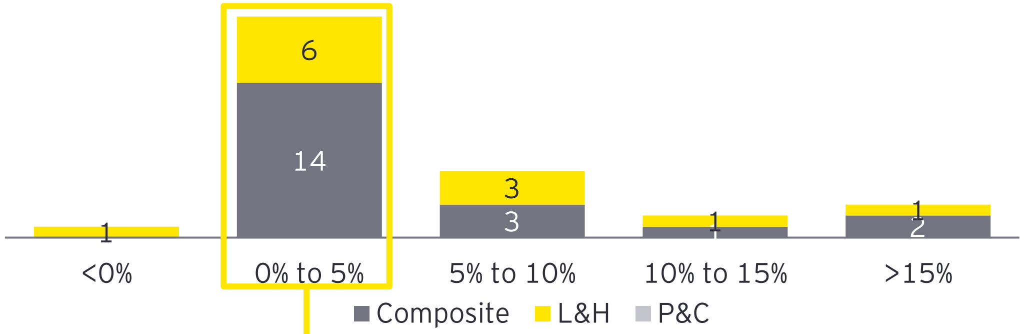
Insights from comparatives on 31 December 2022

- The majority of insurers observed an increase in the YE 2023 loss recovery component weight ratio as compared with the YE 2022 weight ratio, with the most common range being 0% to 10%. Reason for this could be an increase of new underlying contracts written with a loss, or whether specific catastrophic events occurred or not during a period.

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

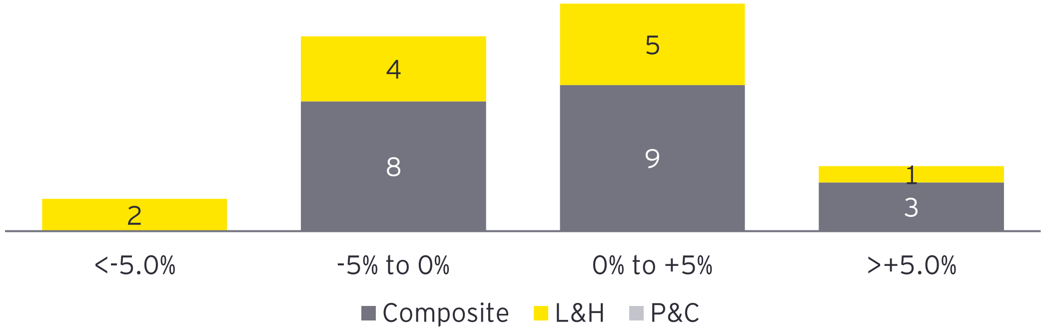
Reinsurance CSM weight on 31 December 2023

No. of insurers presented: 32



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

No. of insurers presented: 32



What the metric is about

It provides insights on the weight of remaining future profitability that has been ceded to reinsurers.

A ratio above 0% means that the CSM for reinsurance contracts held represents an expected net cost (i.e., expected premium ceded are higher than expected recoveries). A ratio below 0% means that the CSM for reinsurance contracts held represents an expected net gain (i.e., expected premium ceded are lower than expected recoveries).

Key takeaways on 31 December 2023

- Almost all insurers presented an expected net cost on their reinsurance contracts held, resulting in a reinsurance CSM weight above 0%. The main range observed is 0% to 5%, while two composite and one L&H insurer presented a reinsurance CSM weight above 15%.
- Only one L&H insurer presented a reinsurance CSM weight below 0% showed an expected net gain on their reinsurance contracts held. In particular, this insurer presented a ratio of -2%.
- 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.

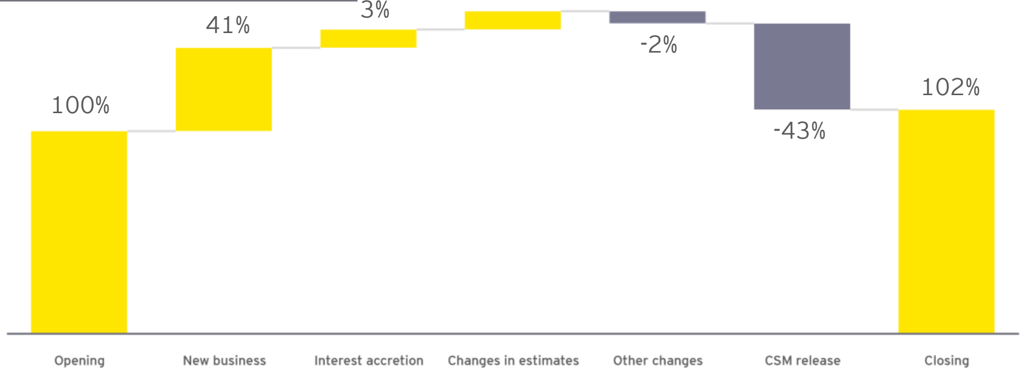
Insights from comparatives on 31 December 2022

- The majority of insurers observed an increase in the YE 2023 reinsurance CSM weight as compared with the YE 2022 weight. Fourteen insurers presented an increase up to 5%, while four insurers presented an increase above 5%, with one of them disclosing a 10% increase.

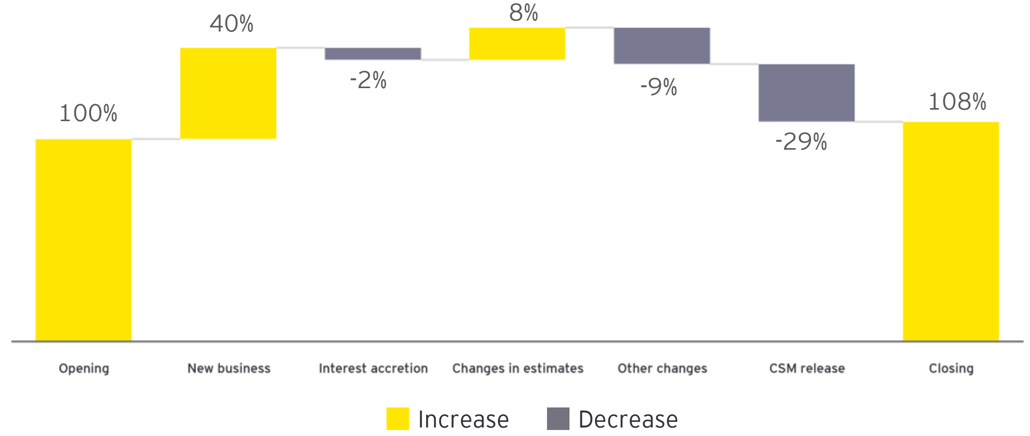
Reinsurance CSM roll-forward: analysis of the CSM movements over the period

Reinsurance CSM roll-forward analysis on 31 December 2023

No. of insurers presented: 19



Reinsurance CSM roll-forward analysis on 31 December 2022



What the metric is about

We analyzed the CSM roll-forward figures for reinsurance contracts held of all insurers with the Euro as reporting currency and presented an illustrative CSM roll-forward table, based on the combined CSM movements across these insurers with the CSM at the start of the period set to 100%.

Key takeaways on 31 December 2023

The net cost in CSM balance increased by 2% due to the following movements:

- **New business/CSM release:** the amount of CSM release in profit or loss has been generally slightly higher than the amount of CSM added for new business. These higher ratios reflect a much shorter coverage period on reinsurance compared to the coverage period of issued contracts (see slide 17).
- **Interest accretion:** reflects the accretion of interest at locked-in rate.
- **Changes in estimates:** includes the effect of changes in estimates that relate to future services, including the effect of losses and reversals of losses on underlying onerous contracts.
- **Other changes:** includes various elements, for example, foreign currency effects or changes in the composition of the insurance company.

Key takeaways on 31 December 2022

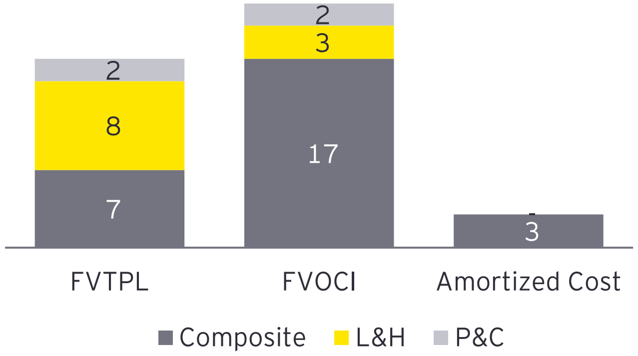
The CSM balance increased by 8% during 2022. The most notable effects are:

- **CSM released in profit or loss being significantly lower than the amount added for new business:** with generally a shorter release period, the CSM release will be more sensitive to changes in composition of reinsurance treaties.
- **Interest accretion:** the interest accretion is 5% lower than in 2023, with one likely factor being the consistently higher interest rate environment during 2023.
- **Changes in estimate:** being higher than 2023 by 5%.

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

Main IFRS 9 classification: debt instruments on 31 December 2023

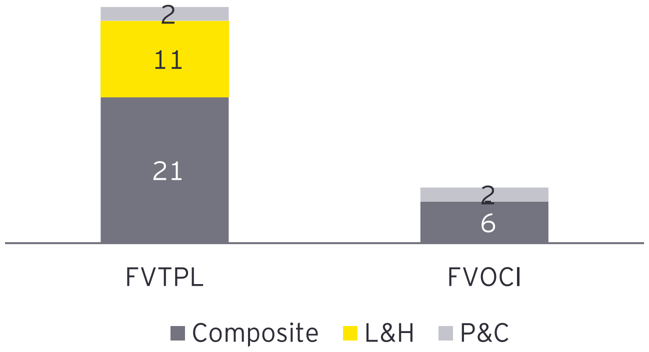
No. of insurers presented: 42



- Twenty-two insurers measure the majority of their debt securities at FVOCI, while seventeen use FVTPL. Three composite (all of them bancassurers) had amortized cost as the main category.

Main IFRS 9 classification: equity instruments on 31 December 2023

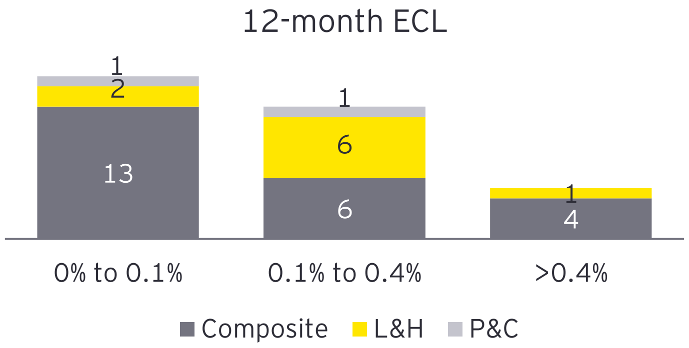
No. of insurers presented: 42



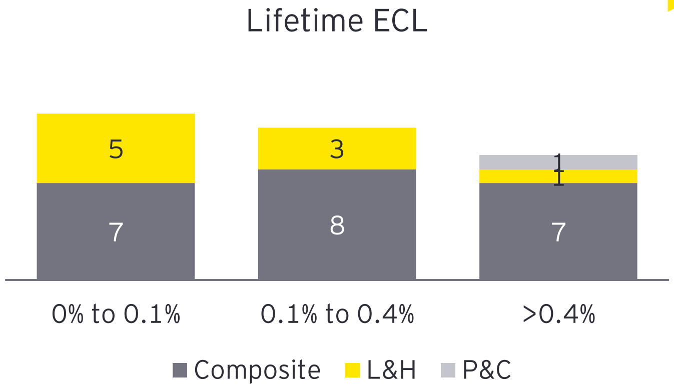
- Thirty-three insurers measure the majority of their equity securities at FVTPL, while eight account for equity instruments at FVOCI (non-recyclable).

ECL allowance as a proportion of carrying value: 12-month (stage 1) and *lifetime* (stage 2 and 3) on 31 December 2023

No. of insurers presented: 34



- The majority of insurers disclosed a 12-month ECL allowance, which is up to 0.4% of the carrying amount of debts that are subject to impairment (FVOCI and AC). Only five insurers reported a percentage above 0.4%.



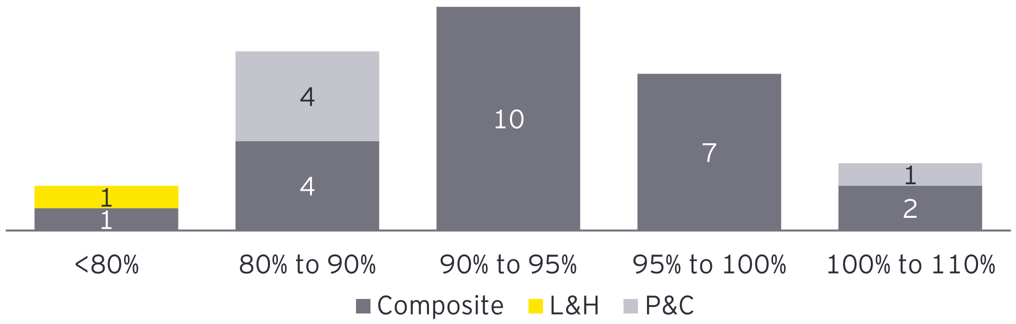
- The lifetime ECL allowance, based on the characteristics of the instruments, has been generally slightly higher. The majority of insurers disclosed a percentage up to 0.4% but nine insurers reported a percentage above 0.4%.

Reported KPIs

Combined ratio

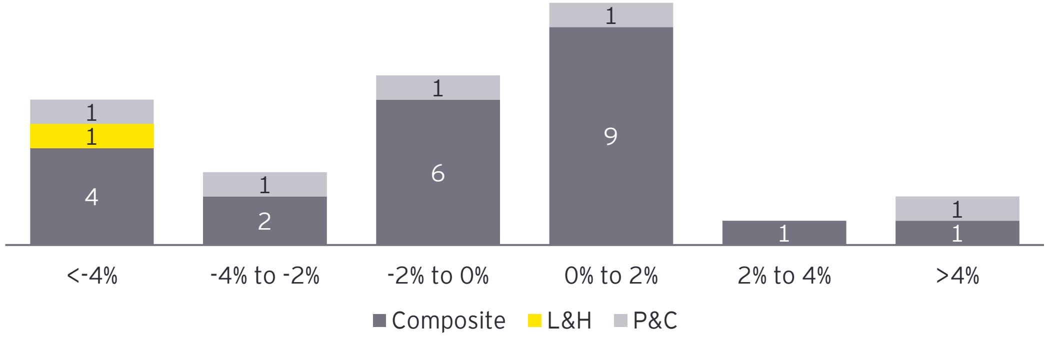
Combined ratio on 31 December 2023

No. of insurers presented: 30



Combined ratio change - 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 30



Combined ratio: what changed compared with IFRS 4

- The combined ratio reflects the ratio of incurred claims and expenses relative to insurance revenue and continues to be widely reported as a KPI for P&C business under IFRS 17.
- Insurers typically updated their combined ratio based on IFRS 17 compared with IFRS 4, for example, by including the effect of discounting, changing the level of expenses included in claims cost, and the increase in claims costs resulting from the recognition of losses from onerous contracts.
- 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.
- Only a few insurers are providing their combined ratio on both discounted and undiscounted basis.

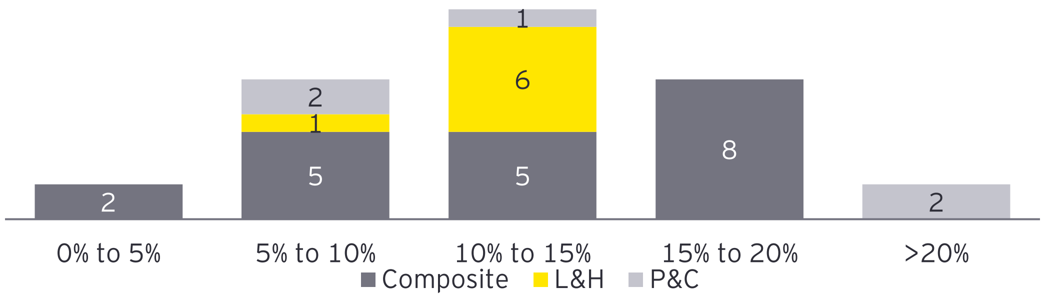
Combined ratio: what did companies report

- A majority of insurers showed an improvement (i.e., a decrease) in their combined ratio over 2023 compared with 2022.
- One common reason for this decrease of combined ratio is the higher impact of discounting which resulted in a lower amount of incurred claims and expenses (i.e., lower numerator). Discount rates during the whole of 2023 have been consistently higher compared to 2022, where rates increased significantly during the year.
- On the other hand, several 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.

Return on Equity

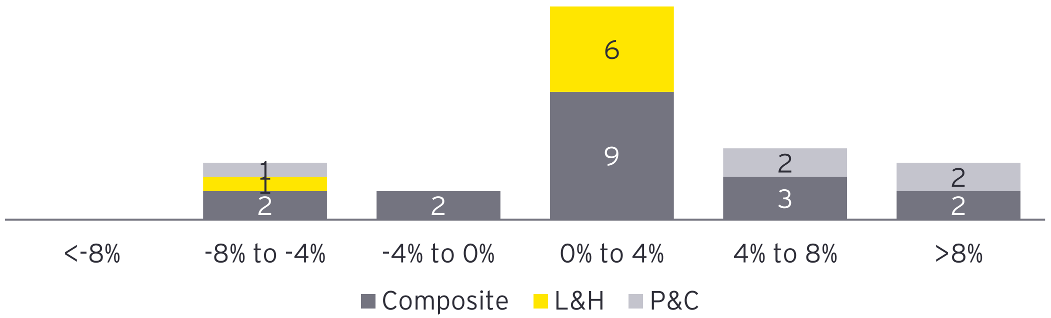
Return on Equity on 31 December 2023

No. of insurers presented: 32



Return on Equity change - 31 December 2023 vs. 31 December 2022 (YE 2022 comparison, pp change)

No. of insurers presented: 30



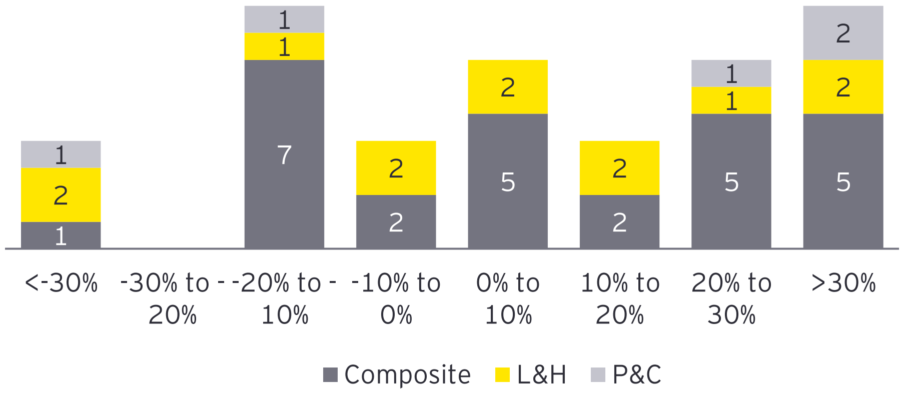
The majority of insurers presented an increase in their Return on Equity in 2023 as compared to 2022

- A large majority of the insurers showed an increase in their return on equity during 2023 compared to 2022.
- One common reason for this increase is the overall improvement of results during 2023 (see next slide). There may also be other company-specific reasons driving changes in the reported return on equity, like share-buybacks.
- Variations exist in how insurers determined their return on equity, for example, using IFRS profits vs adjusted (underlying or operating) earnings for the numerator and exclusion of unrealised amounts in OCI for the denominator.

Operating profit and net profit before tax change

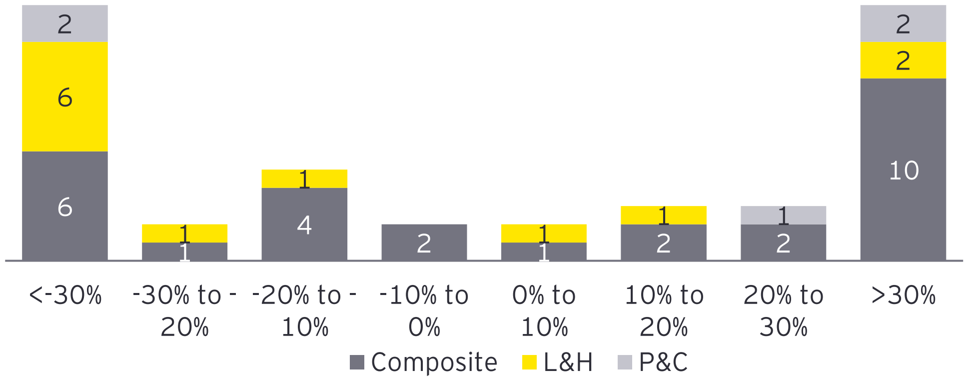
Operating profit – 31 December 2023 vs. 31 December 2022

No. of insurers presented: 43



Net profit before tax – 31 December 2023 vs. 31 December 2022

No. of insurers presented: 45



The majority of insurers presented an increase in their operating profit in 2023 as compared to 2022

- The majority of the insurers showed an increase in their operating profit during 2023. One common reason for the increase is the higher returns from the higher interest rate environment observed during the year.
- Insurers typically recalibrated their definition of operating profit based on IFRS 17 and IFRS 9. The impact differs across insurers 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 usually adjust their net profit to exclude the impact of economic factors (e.g., interest rates and equity prices), 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.

The impact on the net profit before tax varied significantly across insurers

- The amount of net profit before tax varied across insurers with around half of them showing an increase and the other half showing a decrease during the year 2023.
- For the insurers that showed an increase, one of the common drivers is the improvements in their investment return observed during 2023, in particular, in the performance of equities.
- Some insurers recognize the effects from changes in financial markets on investments and insurance liabilities in P&L (instead of OCI option). Therefore, the favorable development from market volatility observed during 2023 compared to 2022 is reflected entirely in the P&L (i.e., P&L was more volatile in 2022).

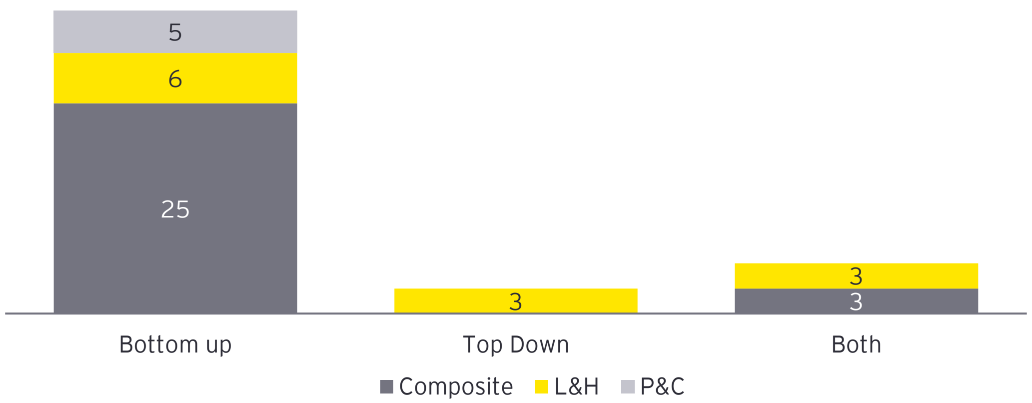
3

Comparison of methodologies and accounting policies

Discount rate approach and curve

Discount rate approach used on 31 December 2023

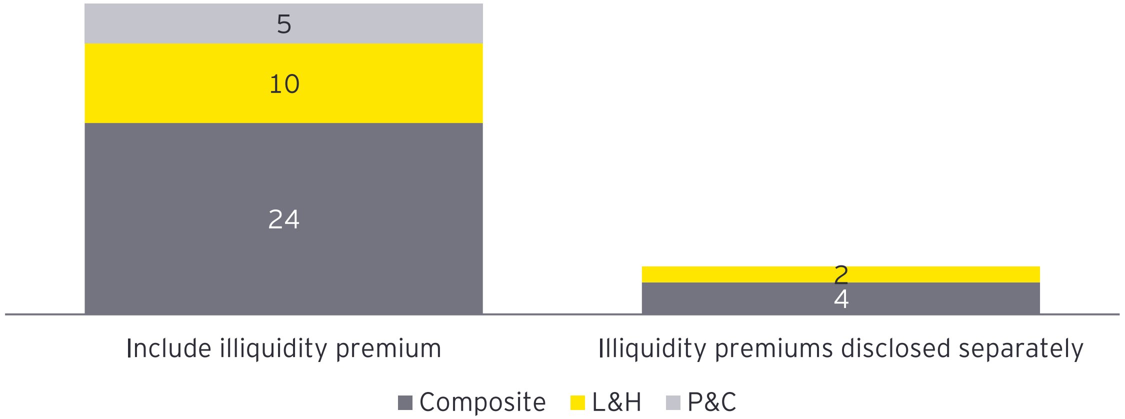
No. of insurers presented: 45



- The large majority of composite and L&H insurers, as well as all P&C insurers, disclosed the use of the bottom-up approach to determine the discount rate, while only three insurers applied the top-down approach.
- Some insurers disclosed the use of both methods, depending on the type of business:
  - Two insurers used the bottom-up approach apart from the annuity business, where they use the top-down approach.
  - Two insurers used the top-down approach for life business, while the bottom-up approach for non-life business.
  - One insurer used the top-down approach for its subsidiaries, while the bottom-up approach for its associates and joint ventures.

Discount rate curve

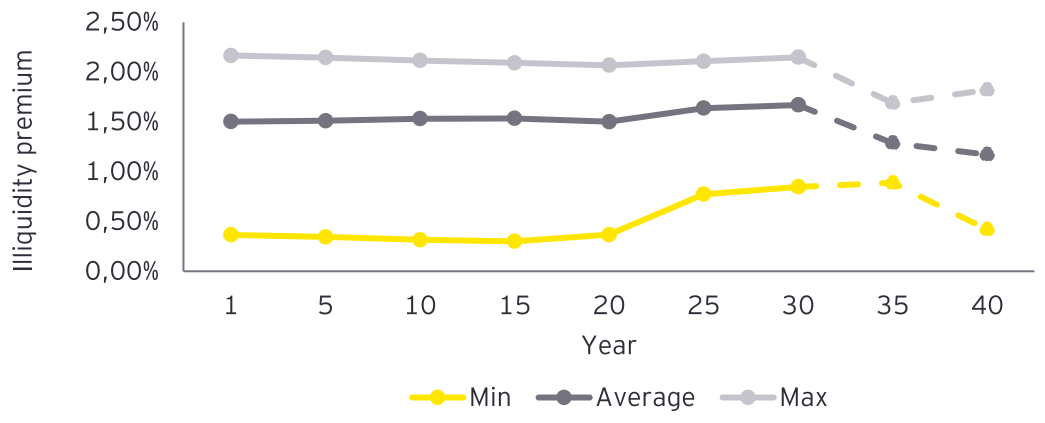
No. of insurers presented: 45



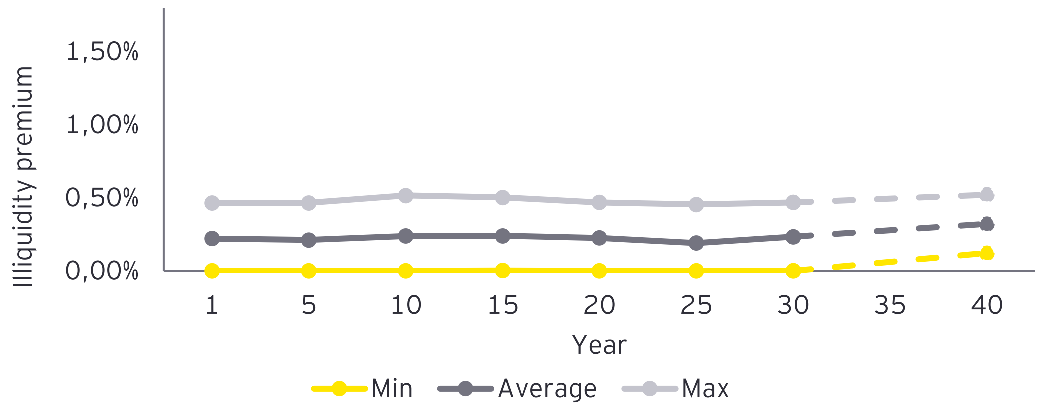
- A large majority of insurers presented the illiquidity premium applied to the "risk-free" rates as part of the total yield curve used to discount the cash flows, while six insurers disclosed the illiquidity premium separately.
- A majority of insurers disclosed the use of both swap rates and government 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 50 years.

Discount rate analysis: illiquidity premiums - GBP

GM Illiquidity Premium (GBP)



VFA Illiquidity Premium (GBP)



Methodology of our analysis

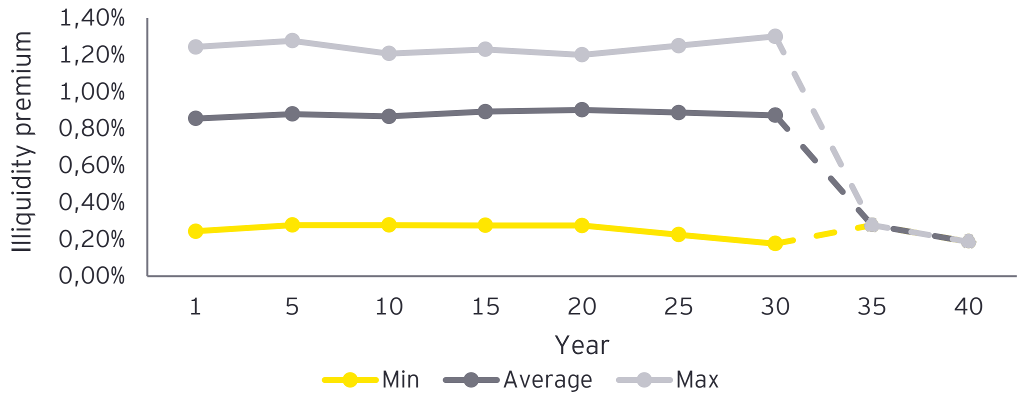
- The ILP is a key driver of the IFRS 17 discount rate and an element that often requires most judgement in establishing the total discount rate.
- For the companies in our panel, we derived the indicative ILP for illustrative purposes by subtracting the "risk free" rate based on EIOPA from the disclosed IFRS 17 discount rates. As such, the actual range of ILPs applied by the companies may differ.
- We looked at the curves including an ILP. Some companies also apply a curve without an ILP (i.e., a "risk-free" rate) to some types of business.
- The analysis was done for GBP and EUR (next slide) rates for GM and VFA products, but with no further distinction by product types. Where necessary, interpolation was applied in our analysis.

Key takeaways as on 31 December 2023

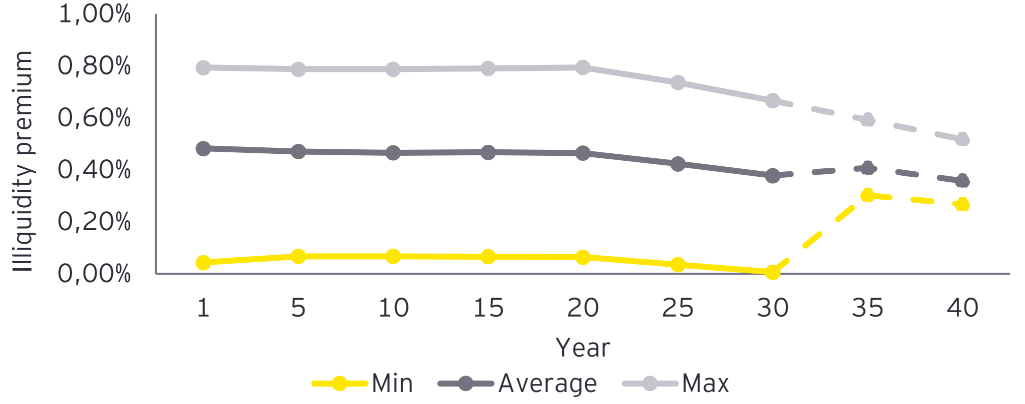
- A range of ILPs, varying between GM and VFA products, is observed due to the variety of products within each measurement model and potentially different methodologies for determining the ILP.
- ILPs are fairly stable across duration, implying a flat ILP assumption for most companies.
- The GM ILP is typically larger than the VFA ILP, likely due to annuity business within GM and low ILPs within participating products (e.g., with-profits and unit-linked which are more liquid).
- Data is limited for duration beyond Year 30, which is indicated by the dashed lines.

Discount rate analysis: illiquidity premiums - EUR

GM Illiquidity Premium (EUR)



VFA Illiquidity Premium (EUR)



Methodology of our analysis

- Consistent with approach to GBP discount rates (see previous slide)

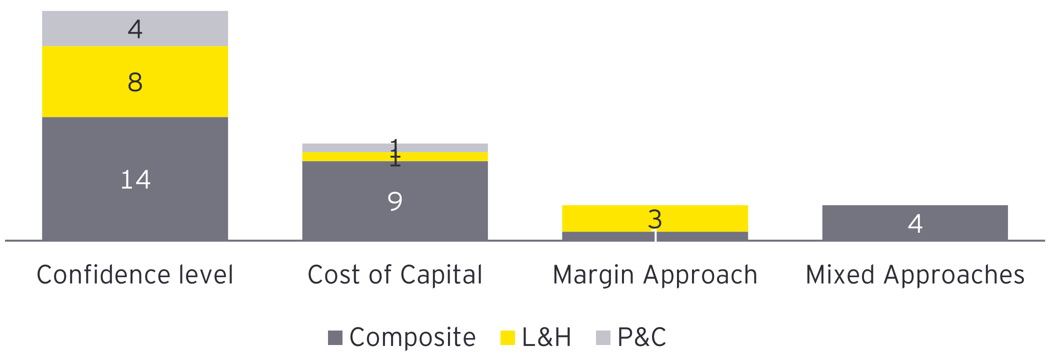
Key takeaways as on 31 December 2023

- As for GBP discount rates, a range of ILPs is observed due to the variety of products within each measurement model and potentially different methodologies for determining the ILP.
- The GM ILP is also typically larger than the VFA ILP for EUR. However, the differences are smaller compared to GBP as the average EUR GM ILP is lower but the average EUR VFA ILP is higher than for GBP.
- Furthermore, the overall range of EUR VFA ILP is noticeably wider than for GBP.
- These differences are likely driven by differences in product features like more diverse profit share mechanisms in continental Europe and different investment policies that underly the reference portfolios used for deriving the ILP. Also, a large amount of illiquid annuity business written in the UK (denominated in GBP) is accounted for under the GM.
- Otherwise, the ILP trends are fairly similar:
  - ILPs fairly stable across duration, implying a flat ILP assumption for most companies.
  - Data is limited for duration beyond Year 30, which is indicated by the dashed lines.

Risk adjustment for non-financial risks methodology decisions

Risk adjustment technique

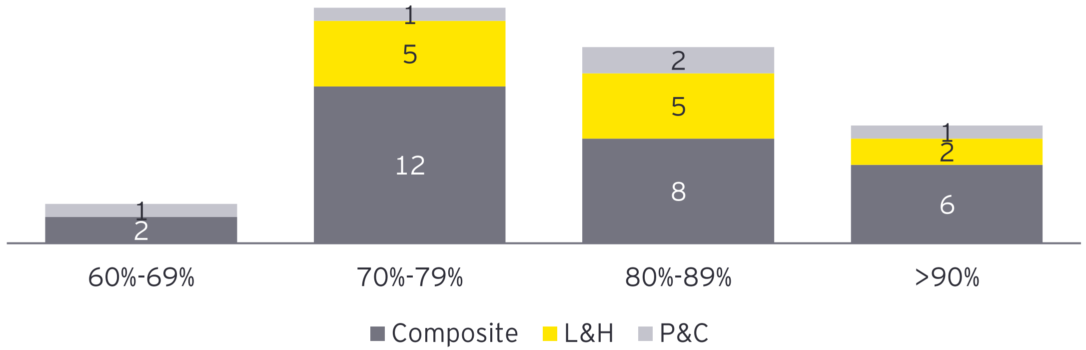
No. of insurers presented: 45



- The large majority of composite, L&H and P&C insurers, disclosed the use of a confidence-level technique to determine the risk adjustment for non-financial risk, with the VaR approach being the most popular.
- The cost of capital approach has been adopted by a number of insurers. These insurers typically 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%.
- Three insurers 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.
- Four composite insurers used mix approaches (i.e., confidence level and margin approach) depending on the type of business (non-life and life) or the IFRS 17 measurement model applied (GM/VFA and PAA).

Risk adjustment confidence level

No. of insurers presented: 45



- The disclosure of the confidence level used to determine the risk adjustment is required by IFRS 17 independently of the technique used for its calculation. The confidence level ranges observed varied across insurers, with the information included in the diagram above showing the point estimate disclosed or the middle of the range in case the insurer disclosed a range.
- The most common confidence level range observed is between 70% and 79%, while the lowest observation is a confidence level of 62.5% and the highest observation is a confidence level of 99.5%.
- Some insurers presented more than one confidence level, for example, by distinguishing between non-life and life business, insurance and reinsurance business and geography.
- Some insurers disclosed their confidence level is based on an ultimate view basis, whereas others mentioned disclosing it on a one-year basis. Not all insurers disclosed what approach they applied. The analysis above therefore includes outcomes under both methods.

CSM coverage units analysis

CSM coverage units approach

- Insurers applying the GM and/or VFA disclosed their approach to coverage units applied under these models to determine the release of the CSM, although the level of detail varies across companies.
- These insurers typically provided insight into the key methodology principles used for calculating the coverage units, including the basis that is used to depict the quantity of services:
  - For non-participating products, a single driver is used.
  - For contracts that included both insurance coverage and investment type services, some refer to an explicit weighting of two drivers for each of the respective services, whereas others refer to the use of a single driver that (implicitly) reflects both services.
- In addition to the approach used to determine the coverage units, some insurers disclosed the fact that they are including an additional CSM release for the systematic economic variance caused by the excess of "real word" returns over "risk neutral" returns for direct participating business measured under the variable fee approach.
- This additional CSM release is considered to avoid the deferral of the systematic economic variance towards the end of the coverage periods of the contracts (so called "bow-wave" effect).

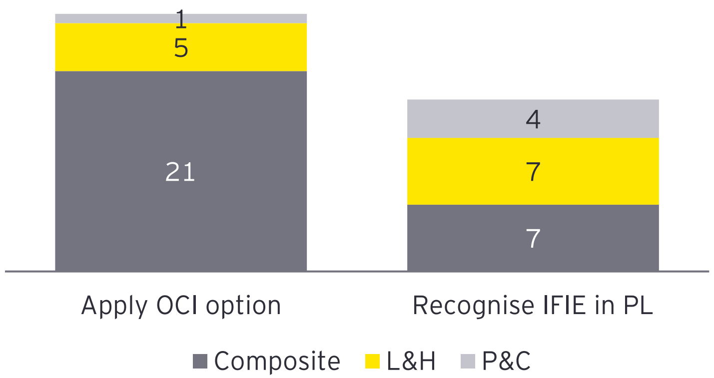
- Some fairly common coverage units adopted by insurers are presented in the table below:

Type of contracts	Coverage unit
Term assurance	Sum assured
Immediate annuity	Annual annuity amount
Participating contracts	Weighting of sum assured for insurance coverage services and reserves or account value for investment type services
Unit-linked	Unit-linked: unit value, insured amount or maximum of insured amount and unit value
Disability	Annual benefit amount
Reinsurance held	Sum assured

Accounting policy elections, cohorts approach and EU carve-out exemption

IFIE accounting policy election (IFRS 17.88/89)

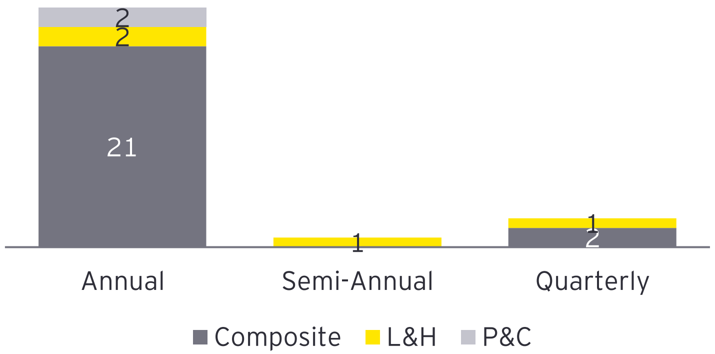
No. of insurers presented: 45



- The majority of composite and L&H insurers elected to apply the OCI option, while the majority of P&C insurers recognized Insurance Finance Income and Expense (IFIE) in profit or loss.

Period used to define cohorts

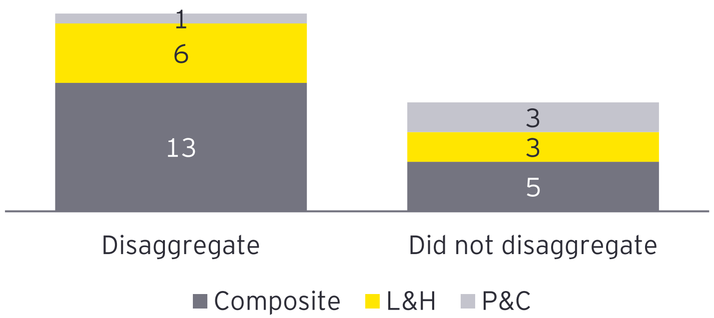
No. of insurers presented: 29



- The large majority of insurers used annual cohorts to group their insurance contracts, apart from one L&H insurer using semi-annual cohorts and three insurers using quarterly cohorts.

Disaggregation of the financing effect policy election (IFRS 17.B96d)

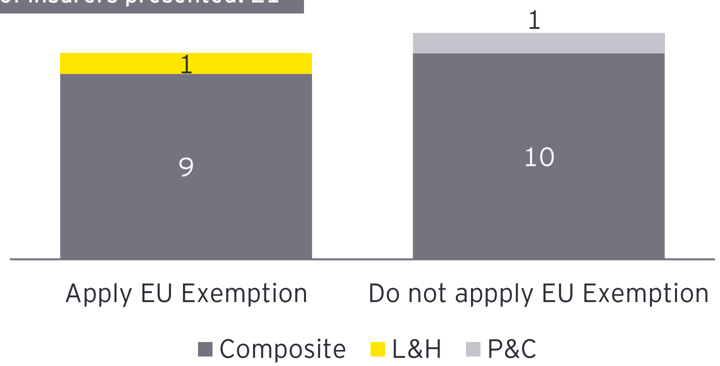
No. of insurers presented: 31



- The majority of the insurers elected to disaggregate the change in risk adjustment between the insurance service result and IFIE.

EU annual cohort exemption (for EU domiciled insurers only)

No. of insurers presented: 21



- Ten insurers out of the twenty-one EU domiciled insurers reported they applied the EU exemption from applying the annual cohorts requirements.

Appendix

Selected IFRS 17 and IFRS 9 financial metrics and KPIs

IFRS 17 or 9	Metric	Definition	Page ref.
IFRS 17 and IFRS 9	Shareholder's equity change	Shareholder's equity change during 2022 and 2023	7
IFRS 17	Insurance service results analysis	$\frac{\text{Release of CSM}}{\text{ISR}}$ $\frac{\text{Release of LFRC RA}}{\text{ISR}}$ $\frac{\text{Losses and reversal of losses}}{\text{ISR}}$ $\frac{\text{Experience variance on current services}}{\text{ISR}}$	8
IFRS 17	RA ratio to PVFCF on LFRC	$\frac{\text{RA}}{\text{PVFCF on LFRC}}$	9
IFRS 17	RA ratio to PVFCF on LIC	$\frac{\text{RA}}{\text{PVFCF on LIC}}$	9
IFRS 17	RA release ratio on LFRC	$\frac{\text{LFRC RA } \mathit{Release}}{\text{LFRC RA start of period}}$	10
IFRS 17	CSM ratio to PVFCF	$\frac{CSM}{\text{PVFCF on } LFRC\ (GM\ and\ VFA\ contracts)}$	11
IFRS 17	CSM composition by transition approaches	$\frac{CSM\ (Other, MRA, FVA)}{\text{CSM End of The Period}}$	12
IFRS 17	CSM release ratio on LFRC	$\frac{CSM\ release}{\text{CSM end of period prior to release}}$	13
IFRS 17	CSM run-off pattern	CSM recognition in P&L in selected time buckets (Less than 1y, 1y-5y, 5y-10y, over 10y)	14
IFRS 17	CSM growth ratio	$\frac{\text{New Business CSM}}{\text{CSM Release}}$	15
IFRS 17	New business CSM weight	$\frac{\text{New Business CSM}}{\text{PVFCF Inflows}}$	16

Selected IFRS 17 and IFRS 9 financial metrics and KPIs (cont.)

IFRS 17 or 9	Metric	Definition	Page ref.
IFRS 17	Insurance CSM roll-forward	Analysis of the CSM movements over the period	17
IFRS 17	Loss component weight	$\frac{\text{LFRC Loss component}}{\text{LFRC Excluding Loss Component}}$	18
IFRS 17	Loss recovery component weight	$\frac{\text{Loss Recovery Component AFRC}}{\text{Loss Component LFRC}}$	19
IFRS 17	Reinsurance held CSM weight	$\frac{\text{Reinsurance held CSM}}{\text{Insurance issued CSM}}$	20
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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
Athora	L&H	Americas
Aviva	Composite	UK
AXA	Composite	Continental Europe
Baloise	Composite	Continental Europe
BNP	Composite	Continental Europe
CNP Assurances	L&H	Continental Europe
Crédit Agricole Assurances	Composite	Continental Europe
Direct Line Group	P&C	UK

Insurer	Segment	Geography
Generali	Composite	Continental Europe
Great-West Lifeco	L&H	Americas
Groupama	Composite	Continental Europe
Helvetia	Composite	Continental Europe
Hiscox	P&C	UK
HSBC	Composite	UK
Intact	P&C	Americas
Intesa Sanpaolo	Composite	Continental Europe
KBC Group	Composite	Continental Europe
Legal and General	L&H	UK
Lloyds Banking Group	Composite	UK
M&G	L&H	UK
Manulife	L&H	Americas
Mapfre	Composite	Continental Europe
Munich Re	Composite	Continental Europe

Insurer	Segment	Geography
NN Group	Composite	Continental Europe
Old Mutual	L&H	Africa
Phoenix	L&H	UK
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
Tryg	P&C	Continental Europe
Unipol	Composite	Continental Europe
Zurich	Composite	Continental Europe

Glossary

Abb.	Full expression
AC	Amortized cost
AFRC	Asset for remaining coverage
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
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

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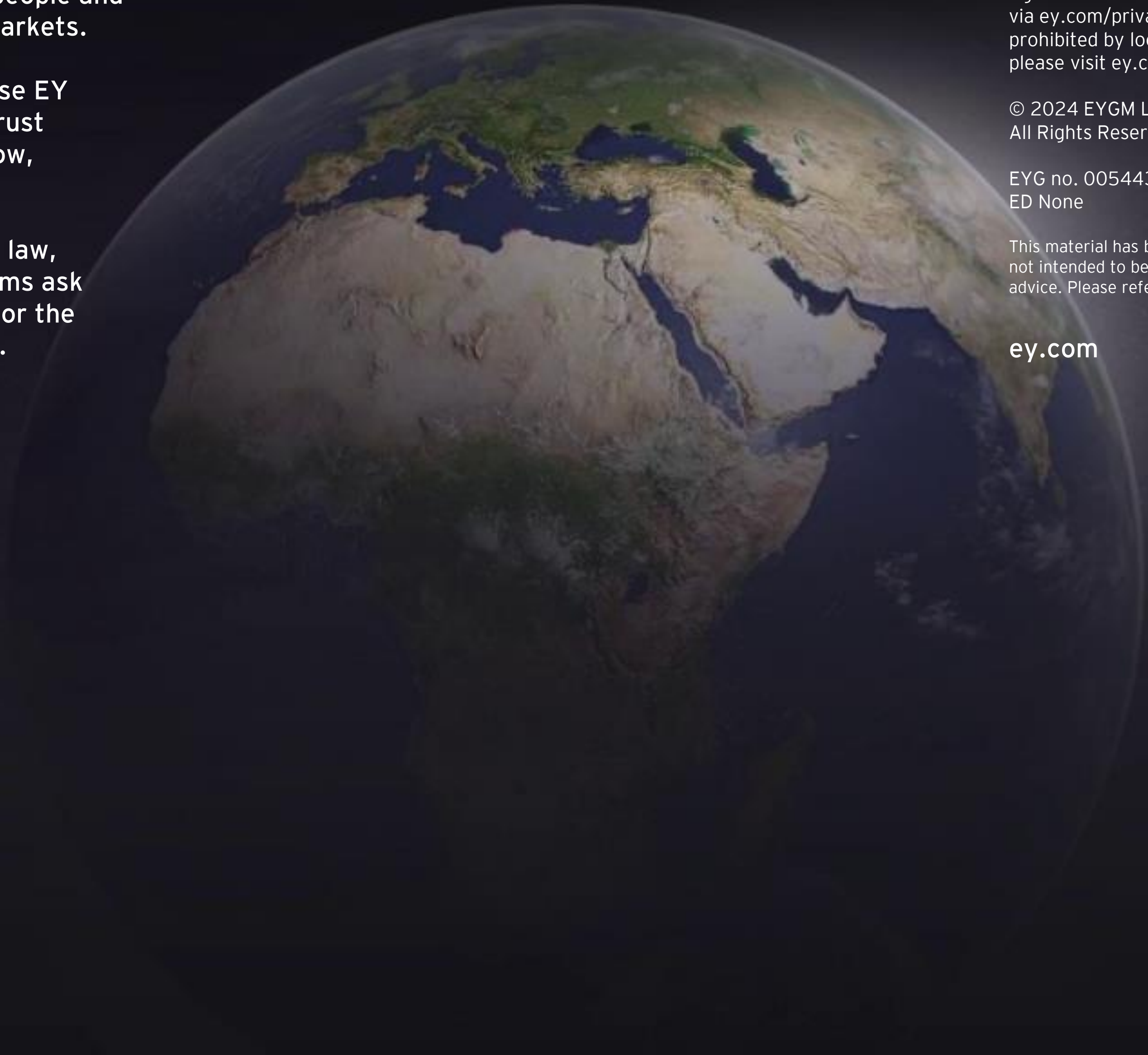

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