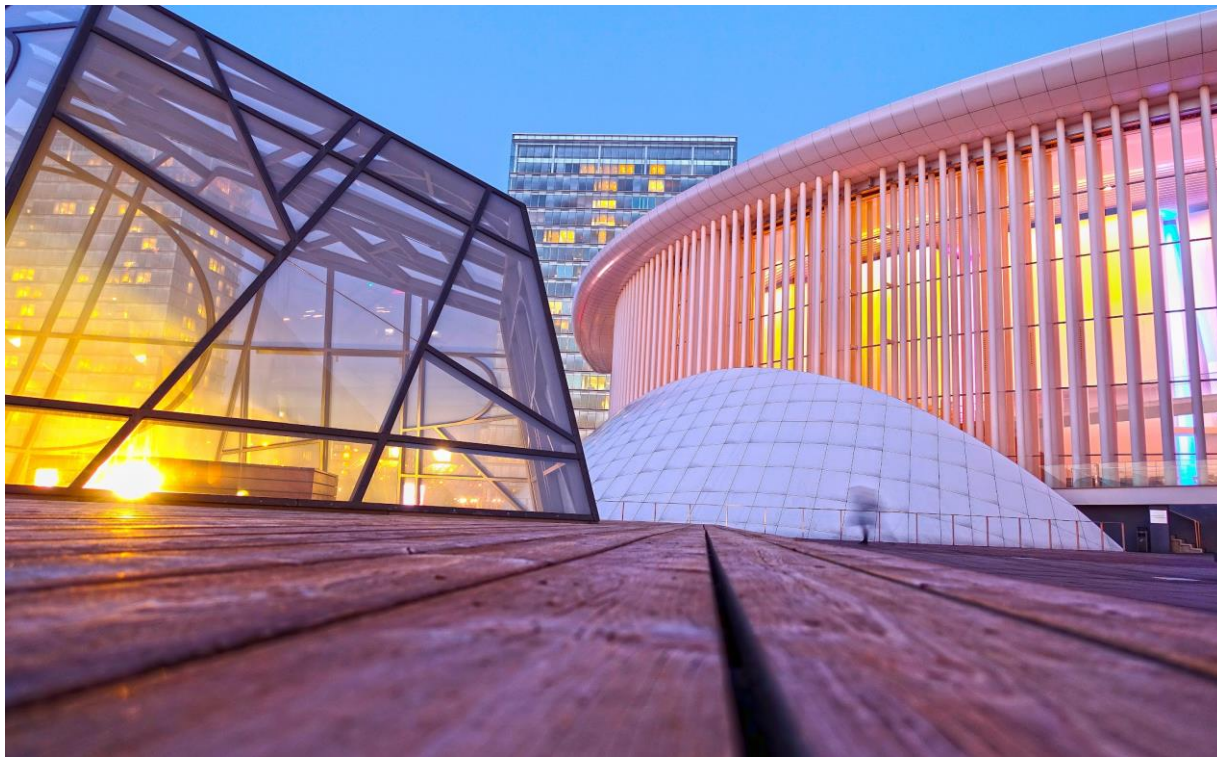


Unfolding IFRS 17: Was the Journey Worth It?

Investor presentation on IFRS 17/9
of key insurance players at a glance

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1. Context and Objectives

Context



IFRS 17 is the new IFRS standard for insurance contracts applicable from January 1, 2023. Many insurers are also adopting IFRS 9 Financial Instruments on the same date.



The main goals of IFRS 17/9 are to provide a more economic valuation of insurance assets and liabilities, increase comparability across companies and improve transparency.

What we did



We performed an overview and run a benchmarking exercise around market insights on key methodology choices and impact on financials and KPIs from transition to IFRS 17/9.



We analysed investor presentation on IFRS 17/9 by a panel of 12 key European (re-) insurance players published till H2 2023.



We summarised our observations around IFRS 17 programs for local market and our first impressions post HY22 and YE22 IFRS 17 audits

Panel of (Re-) Insurers

Composite



Reinsurers



L&H

(incl. composite with mainly L&H)



2. Key Observations

Profitability

Most insurers expect limited disruptions from IFRS 17 and IFRS 9 with no change in ultimate profitability and economics of the insurance business.

Technical Reserves

IFRS 17 technical reserves are more consistent and comparable with Solvency II technical provisions, This is to great extent driven insurers' effort to align demographic assumptions and discount rates approach between IFRS 17 and Solvency II.

Company strategy and dividend policy

No major impacts on company's strategy, solvency, share buy-back, dividend policy and cash generation.

Contractual Service Margin (CSM)

creation is the biggest change that leads to reduction in equity due to the inclusion of future profits under liabilities. However, it will also lead to improved predictability and stability of profits pattern on the life business.

Operating profit

Operating profit projected to be stable or slightly lower for majority of the insurers.

Technical Reserves

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Synergy with Solvency II

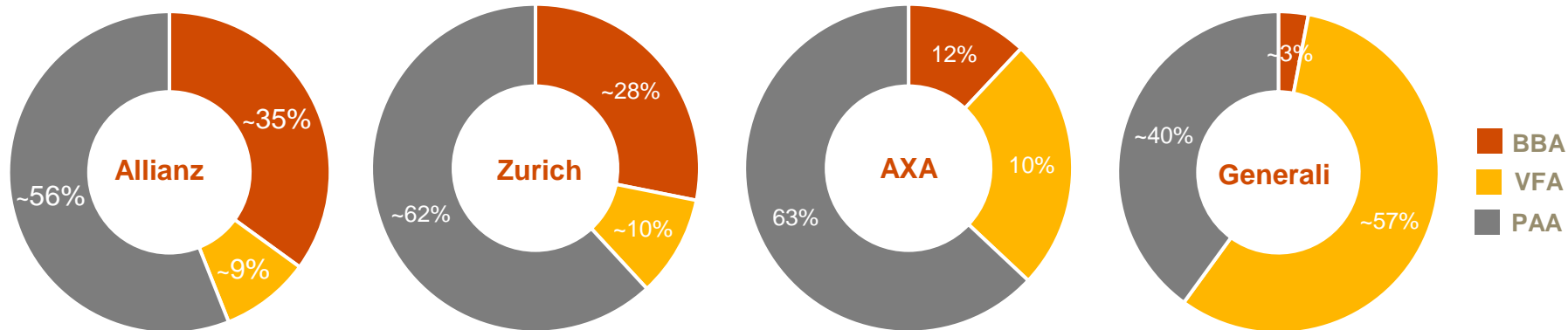
Majority of insurers have tried their best to converge IFRS 17 and Solvency II approach, where possible, to ensure consistency between financial and statutory reporting. Solvency II expected to remain the main valuation anchor.

Shareholder Equity

Shareholder equity at transition has reduced for majority of insurers (by 5-50%) due to inclusion of future profits (CSM) under liabilities.

3. IFRS 17 Measurement Model (1/3)

As prescribed, composite insurers have applied mandatory BBA for long-term non-participating business (traditional life), VFA for long-term participating business (unit-linked and with-profit), and optional PAA for short-term business (mainly P&C and health). For **P&C business**, insurers have tried their best to use **PAA** (simplified model) with **~99% adoption**, by changing contract duration to ≤ 12 months, to reduce the impact of IFRS 17 transition.



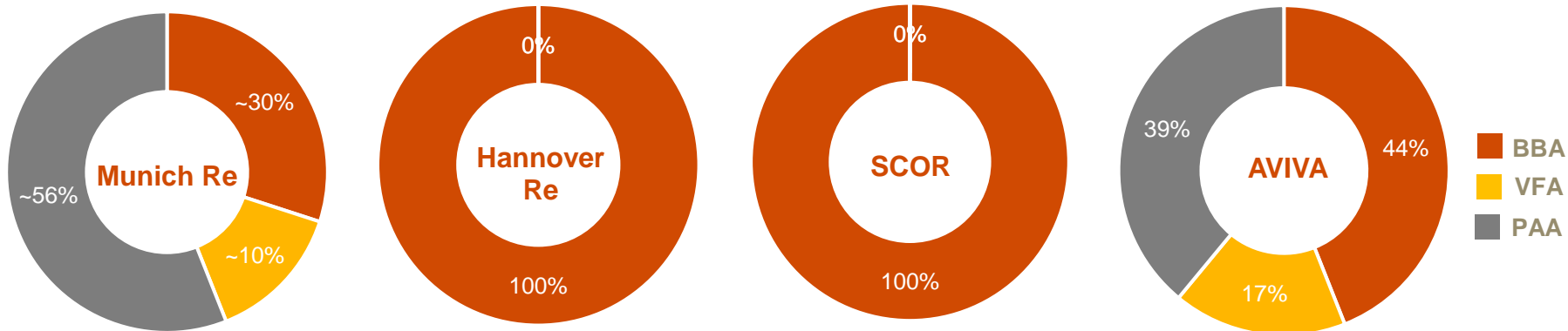
* Composite insurers

** Used approx. split for Allianz, Zurich and Generali

Model	Allianz	Zurich	AXA	Generali
Building Block Approach (BBA)	79% of L&H	~75% of life reserves and investment liabilities • Long-term and whole life protection • Certain savings products (e.g., Spain) • Universal life	12% of Total • Long-term non-participating business incl. non-participating Protection and Health	4% of Life 1% of P&C
Variable Fee Approach (VFA)	21% of L&H	• Unit-linked • Continental Europe traditional savings • UK with-profits contracts	25% of Total • Long-term participating business incl. G/A Savings, Unit-Linked and participating Protection and Health	96% of Life
Premium Allocation Approach (PAA)	99% of P&C	~99% of P&C GWP Short term life business	63% of Total • incl. 99% P&C and short-term Protection and Health	99% of P&C

3. IFRS 17 Measurement Model (2/3)

As prescribed, composite insurers have applied mandatory BBA for long-term non-participating business (traditional life), VFA for long-term participating business (unit-linked and with-profit), and optional PAA for short-term business (mainly P&C and health). However, **many reinsurers**, like Hannover Re and SCOR, have applied **BBA** for **100%** of their portfolio to ensure consistency in approach across different lines of business.

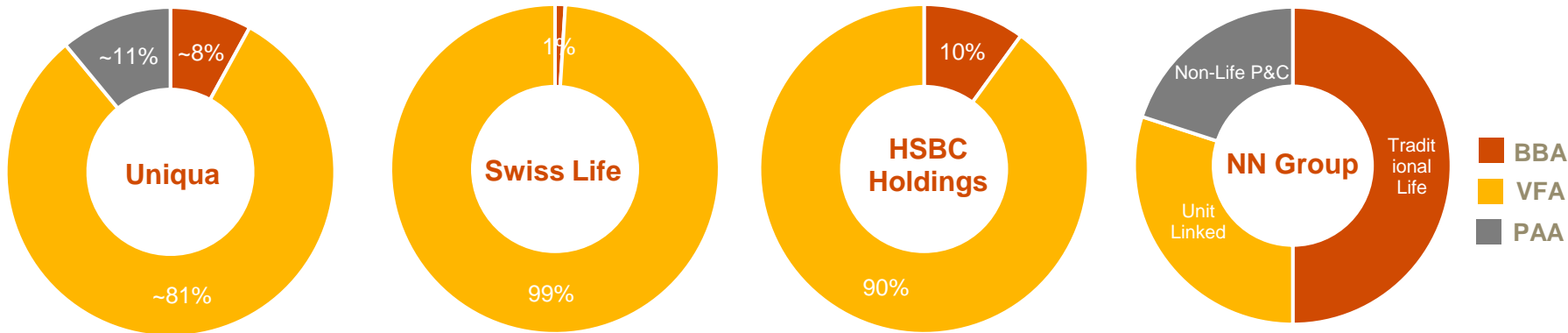


* Composite (re-) insurers
** Aviva has L&H dominated portfolio

Model	Munich Re	Hannover Re	SCOR	AVIVA
Building Block Approach (BBA)	30% of Total <ul style="list-style-type: none"> 100% L&H reinsurance business 2% L&H and 59% P&C ERGO Germany 47% ERGO International 	100%	100%	44% of Operating Profit
Variable Fee Approach (VFA)	14% of Total <ul style="list-style-type: none"> 81% ERGO L&H Germany 6% ERGO International 			17% of Operating Profit
Premium Allocation Approach (PAA)	56% of Total <ul style="list-style-type: none"> 100% P&C reinsurance business 17% L&H and 41 % P&C ERGO Germany 47% ERGO International 			39% of Operating Profit

3. IFRS 17 Measurement Model (3/3)

For major **L&H insurers**, we see **extensive use of VFA model** due to dominating portfolios of participation business (unit-linked, universal life and with-profit) to benefit from ALM symmetric accounting. Mandatory BBA model is used mainly for long-term non-participating business (traditional life), For these insurers, application of PAA model was mainly limited to their short-term business.

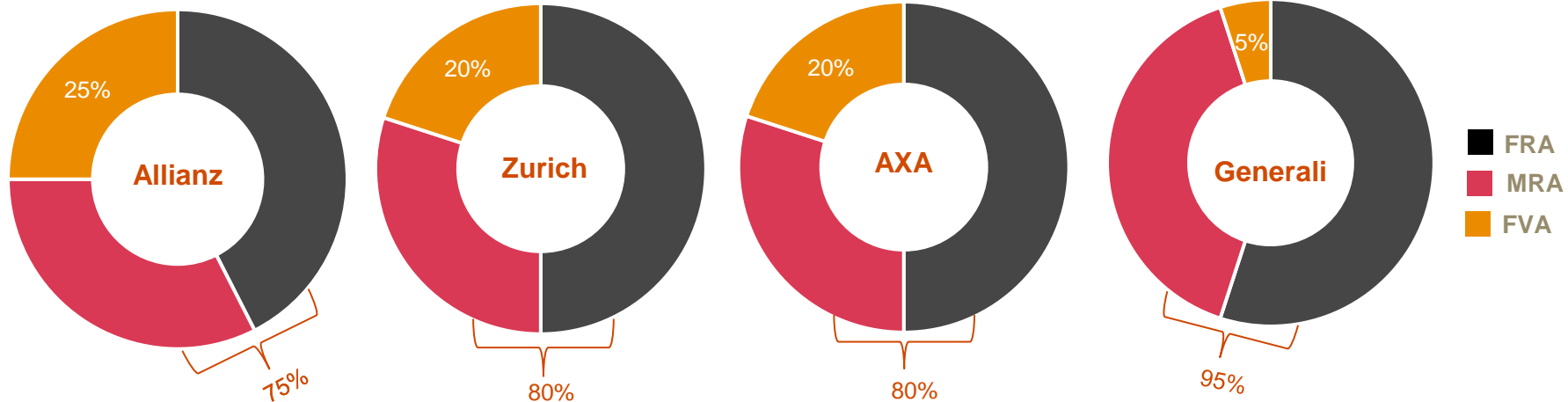


* Mainly L&H insurers
** Split is not provided for NN

Model	Uniqua	SwissLife	HSBC Holdings	NN Group
Building Block Approach (BBA)	8% Long-term P&C business, Life business without profit participation	1%	10%	traditional life
Variable Fee Approach (VFA)	81% Health business and Life business with profit participation, mutualization applied in UAT; index/unit-linked business	99%	90%	unit linked, unless not allowed
Premium Allocation Approach (PAA)	11% short-term P&C business, reinsurance			non-life P&C

4. IFRS 17 Transition Approach (1/3)

Majority of composite insurers have chosen to apply a **retrospective approach** (full or modified retrospective), where possible, for most of their business (~75-95%). Fair value approach is only applied to older or less significant part of the business or due to data availability issues.

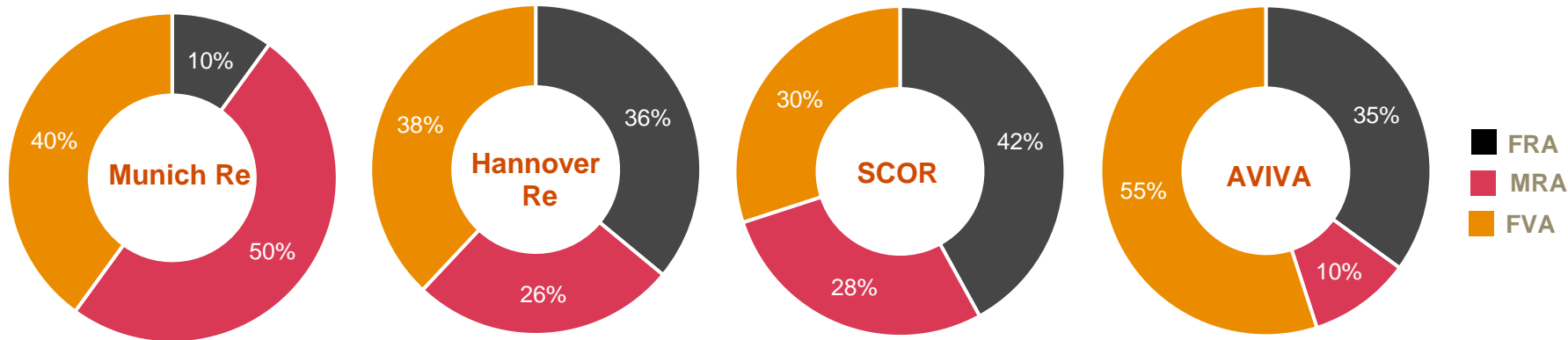


* Composite insurers

Transition method	Allianz	Zurich	AXA	Generali
Full Retrospective Approach (FRA) Modified Retrospective Approach (MRA) Fair Value Approach (FVA)	For L&H, retrospective approach for 75% 25% FVA	Fully retrospective approach for recent cohorts; modified retrospective approach preferred alternative 80% of CSM based on retrospective approach, 20% FVA	Retrospective approach for ~ 80% of L&S Fair value approach for ~20%	~95% Retrospective approach ~5% Fair value approach

4. IFRS 17 Transition Approach (2/3)

For majority of reinsurers and composite insurers with significant L&H business, **retrospective** (full or modified retrospective) is still the **preferred approach** for IFRS 17. However, for these insurers, the application of Fair value approach is slightly higher due to limited availability of data.

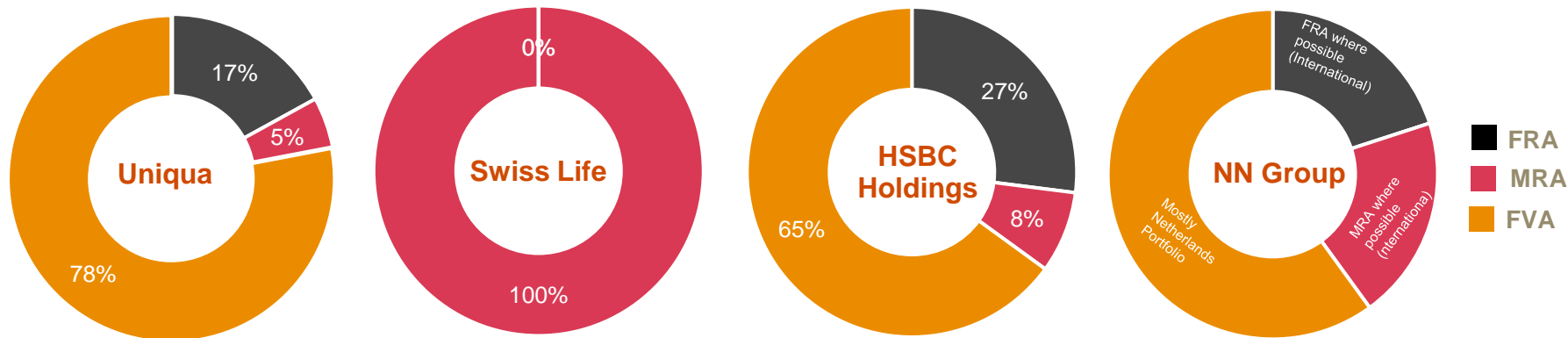


- Composite (re-) insurers
- ** Split is not disclosed by Hannover Re
- *** Aviva has L&H dominated portfolio

Transition method	Munich Re	Hannover Re	SCOR	AVIVA
Full Retrospective Approach (FRA) Modified Retrospective Approach (MRA) Fair Value Approach (FVA)	FRA ~10% MRA ~50% FVA ~40%	<ul style="list-style-type: none"> Hannover Re has used all available approaches at transition: full retrospective (FRA), modified retrospective (MRA) and fair value approach (FVA). Based on H1 2023, <ul style="list-style-type: none"> FRA ~36% MRA ~26% FVA ~38% 	<ul style="list-style-type: none"> P&C: 100% full retrospective Life: 34% full retrospective, 32% modified retrospective, 34% fair value approach 	FRA ~ 35% MRA ~10% FVA ~ 55%

4. IFRS 17 Transition Approach (3/3)

For majority of L&H insurers, there is limited application of full retrospective approach due to the complexity and limited availability of data. Consequently, these insurers have made **significant use of fair value approach**. Swiss Life, however, has chosen to apply modified retrospective approach for all of their business.



* Mainly L&H Insurers
** Split is not disclosed by NN

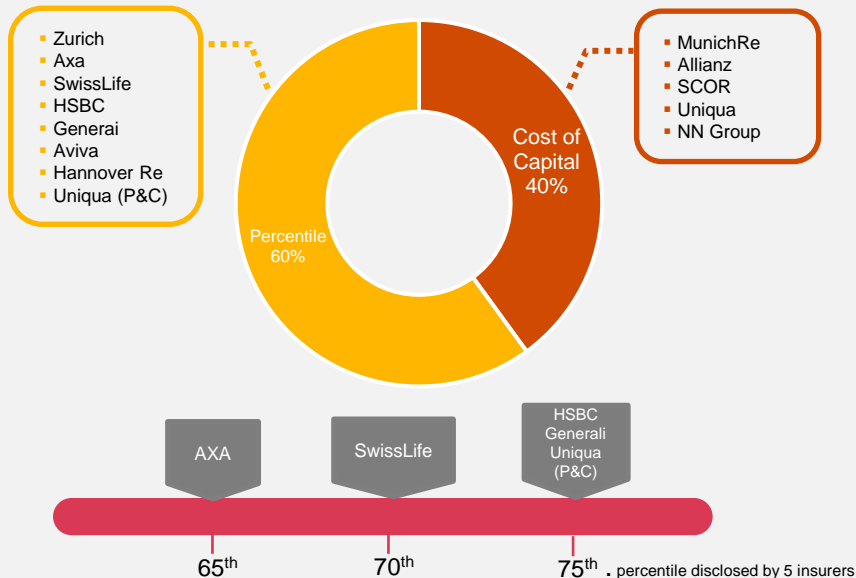
Transition method	Uniqua	SwissLife	HSBC Holdings	NN Group
Full Retrospective Approach (FRA)	FRA~17%		FRA~27% of CSM	Extensive use of FVA due to limitations in historical data <ul style="list-style-type: none"> FRA where possible (e.g., International) MRA where needed (e.g., International) FVA for most portfolios in the Netherlands
Modified Retrospective Approach (MRA)	MRA~5%	MRA: 100%	MRA~8% of CSM	
Fair Value Approach (FVA)	FVA~78%		FVA~65% of CSM	

5. IFRS 17 Accounting Policy and Methodology Choices (1/2)

Risk Adjustment Approach

Insurers are split between Cost of Capital (CoC) and Quantile approach for determining the risk adjustment with:

- Around 40% of the insurers have chosen to apply a Cost of Capital approach similar Solvency II;
- Around 60% of the insurers have chosen to apply a percentile approach confidence interval ranging between **65%-75%** percentile.



Discount Rate Approach

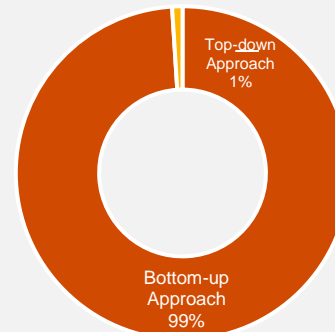
Majority of insurers have adopted a bottom-up approach in line with Solvency II discount rates to increase harmonization as much as possible. Only Aviva has adopted top down approach for it's annuities business.

Bottom-Up Approach

$$\text{IFRS17 Discount Rate} = \text{Risk-Free Rate} + \text{Illiquidity Premium}$$

Top-Down Approach

$$\text{IFRS17 Discount Rate} = \text{Portfolio Yield} - \text{Adj. for unexpected losses}$$

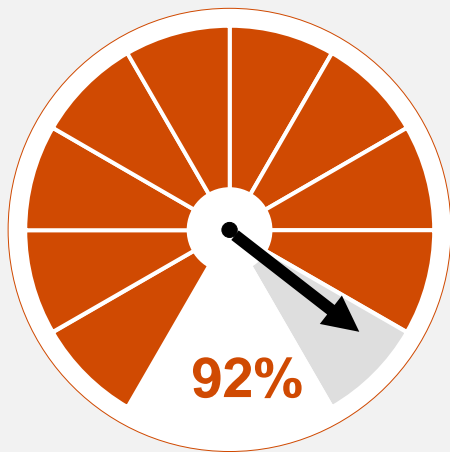


5. IFRS 17 Accounting Policy and Methodology Choices (2/2)

Other Comprehensive Income (OCI) Option

Around **~92%** of insurers have chosen to use OCI option to account for the impact of changes in economic assumptions (market interest rates and spreads) on assets and liabilities in order to reduce P&L volatility:

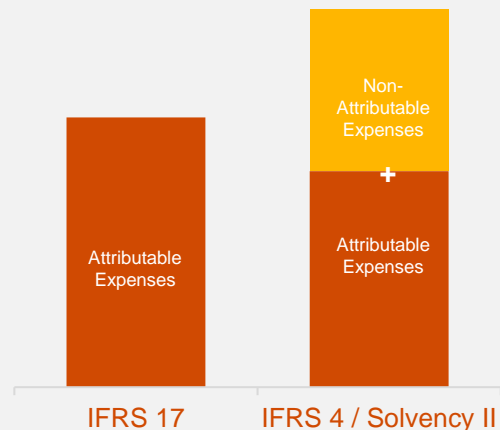
- ❑ **Liabilities:** Majority of insurers have chosen to apply disaggregation approach for impact of changes in discount rates between P&L and OCI for insurance liabilities.
- ❑ **Assets:** Many insurers who apply OCI option for insurance liabilities have also chosen to apply OCI option for equity investments while a few have chosen to accept short-term volatility in order to show long-term positive contribution of increasing market prices.



Allocation of Expenses

Under IFRS 17, expenses are allocated to groups of contracts if they are directly attributable to fulfilling insurance contracts. The non-attributable expenses are separated accounted for when calculating the operating profits and cost related KPIs. This is in contrast to IFRS 4/Solvency II, where all admin and overhead expenses related to servicing of insurance contracts are also taken into account.

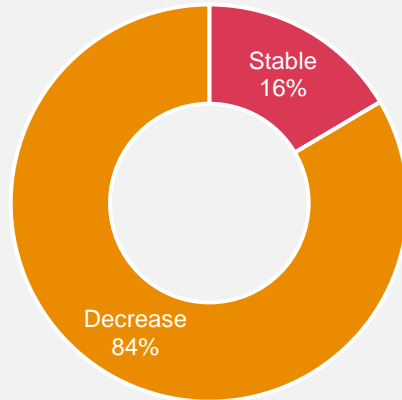
For example, Munich Re disclosed that more than 10% of former admin expenses are non-attributable (e.g. overhead/project expenses) under IFRS 17



6. IFRS 17 Impact on Financials

Equity at Transition

For majority of insurers, shareholder equity is likely to decrease at transition due to the inclusion of future profits (CSM) under liabilities. However, some insurers expect slight increase or relatively stable equity position mainly due to discounting (higher) of reserves on their P&C portfolio.

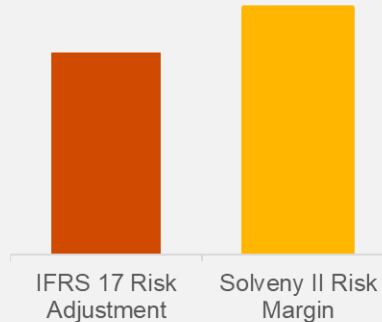


• AXA
• NN Group

Insurance Liabilities

Majority of insurers indicated that Insurance liabilities under IFRS 17 are more comparable to Solvency II.

- ❑ IFRS 17 technical reserves are more consistent and comparable with Solvency II technical provisions. Those insurers who disclosed the impact on reserves mentioned consistent strength of reserves post IFRS 17 adaptation.
- ❑ IFRS 17 Risk Adjustment is more comparable to Solvency II Risk Margin. The methodological differences from Solvency II approach mainly stems from diversification. In general, IFRS 17 Risk Adjustment is slightly lower than Solvency II Risk Margin.

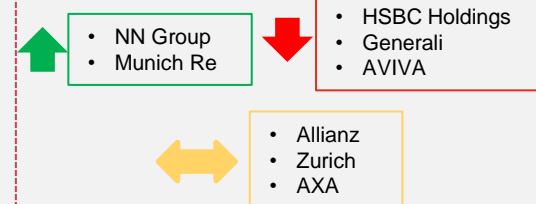


Insurance Results and Profitability

Many insurers indicated that operating profits and net income are expected to be stable or slightly lower under IFRS 17. Key drivers are:

- ❑ **L&H Insurance Results:** Expected to be slightly lower but less volatile due to gradual release of CSM over years.
- ❑ **P&C Insurance Results:** Expected to be more volatile due to impact of discounting. Due to current higher interest rates environment, insurance service results are better in short term with offsetting impact in insurance investment result.
- ❑ **CSM Release:** CSM release is expected to vary between 6-9% p.a. depending on the business line. On an average, 8% p.a. CSM release is expected for life business.

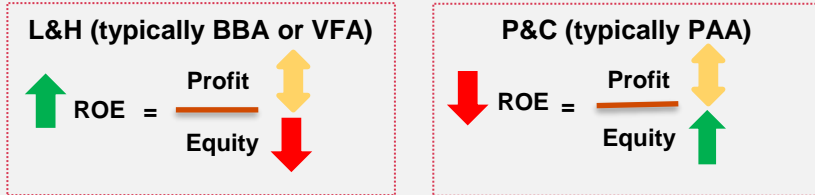
Impact on Operating Results



7. IFRS 17 Impact on KPIs

Return on Equity (ROE) – Profitability KPI

ROE is expected to be higher for most of the insurers as the IFRS 17 shareholders' equity is expected to be lower compared to IFRS 4 due to CSM being recognized under liabilities. For insurers with significant P&C portfolio, ROE is likely to decrease due to increase in equity.



Combined Ratio – Profitability KPI

There is an impact on P&C combined ratio for many insurers due to reporting changes to gross basis. P&C combined ratio is expected to reduce for a lot of insurers due to improved insurance results and reporting on gross basis (some still continue to report on net basis).

$$\text{Combined Ratio} = \frac{\text{Claims + Expenses}}{\text{Insurance Service Revenue}}$$

Financial Leverage Ratio – Leverage KPI

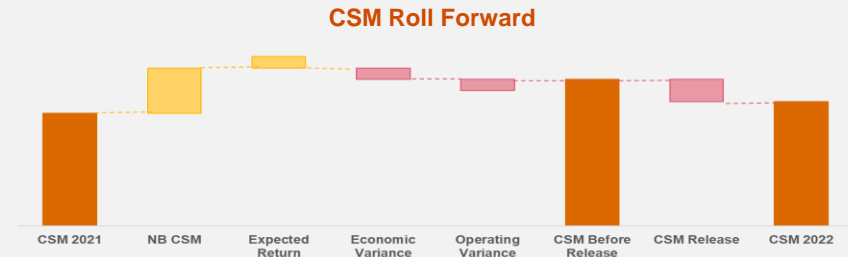
Financial leverage ratio is expected to decrease for majority of insurers (~64%) as CSM is now included in denominator. The impact is more prominent on insurers with major L&H portfolios.

$$\text{Financial Leverage} = \frac{(\text{Strategic debt})}{(\text{Strategic debt} + \text{equity} + \text{net CSM})}$$

* Strategic debt = Subordinated debt + senior debt

Contractual Service Margin (CSM) - - Value Creation KPI

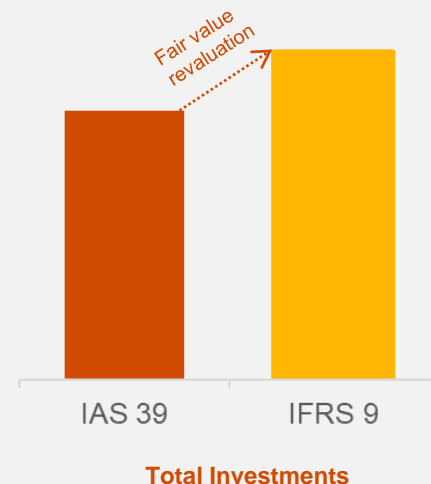
Under IFRS 17, CSM new business will become a key measure of value creation for L&H portfolios. Many insurers reported that L&H insurance results are expected to be more steady and predictable due to gradual release of CSM under IFRS 17.



8. IFRS 9 Impact on Assets

- Investments:** For majority of insurers, there is limited impact from movement to IFRS 9 on invested assets. Many insurers opted for FV OCI approach to dampen the impact of market volatility on equity investments. For some insurers, there is slight increase in total investments due to revaluation at fair value.
- Intangibles:** Some impact from elimination of DAC/VBI from intangible assets with goodwill unaffected.
- Expected Credit Loss (ECL):** ECL on transition to IFRS 9 is likely to be immaterial for most of the insurers reflecting the high credit quality of the investments' portfolio.

	IAS 39	IFRS 9
1 Fixed Income	Mainly Amortized Cost	Mainly Amortized Costs or FV OCI
2 Listed Equity	Mainly at FV P&L	Mainly at FV OCI
3 Real Estate	Amortized Cost	Amortized Cost non-VFA FV P&L VFA
4 Investment Funds, Derivatives & Others (incl. Private Equity)	FV P&L or OCI	FV P&L



9. Impact of IFRS 17/9 on Luxembourgish Insurers

Out of 40 top insurers in Luxembourg **50%** companies have applied IFRS 17 due to public/group reporting requirements.

1

Solvency II **experience repeats to some extent** -
Group solutions + additional local functionality build

2

Minimum compliance Solution dominating the
Agenda - only a few performed full implementation with
limited scope of simplifications

3

Group reporting need, consolidation routine
(sometimes outside Insurance groups) - **driven by
materiality of the expected impact**

4

Where are the real benefits?...
Some clients still leveraged IFRS 17 as a catalyst
of Finance Transformation

5

Difficulties with **understanding results** due to
simplifications and the high-level approach employed

6

Real momentum for acknowledging **issues with
Data availability and Data management**

7

Sustainability of the Minimum compliance approach –
how to improve it?

8

IFRS 17/9 for **captives** – How?

Topics for IFRS 17 conversations post implementation - Globally and in Lux...



Auditing IFRS 17 – more time consuming, more complex



Finance Transformation, IFRS 17 steering



IFRS 17 revenue and CSM walk



Product design



Model Change, Process change



KPI's today and tomorrow

Your opinion or questions

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