# IFRS 17 HY23 UK Results Analysis

October 2023

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# 1 Executive summary

# Executive summary

### IFRS 17 is finally live

- Following many years of significant investment by insurance companies, the IFRS 17 standard is now live and all major UK listed insurance companies reported under the new standard at interim 2023.
- This is the first time we have a significant amount of publicly available quantitative and qualitative data and information to compare the impacts of IFRS 17 across the UK insurance market.

**This publication compares the disclosures made by 9 of the largest UK life insurers and 17 GI companies (with the majority headquartered in the UK/Europe). In both markets, the insurers have a significant UK presence.**

### Disclosures at HY23 have varied

- Our analysis shows divergent practices in terms of the disclosures included at HY23 and the level of detail included within these disclosures. This is expected given accounting requirements for interim reporting.
- The updated definitions of existing KPIs, such as adjusted operating profit (AOP) and combined ratio (COR), differ across insurers and a number of new metrics have been developed in light of IFRS 17.

**We have compared key disclosure items and KPIs across the life and GI markets separately and outlined any interesting trends that are beginning to develop.**

### Further work required ahead of FY23

- Some firms included limited IFRS 17 disclosures at HY23 and are therefore likely to have significant work to complete in the remaining months of the year to prepare the information required to be disclosed at FY23.
- Given divergent approaches at HY23, some firms may wish to reflect on the definitions of their KPIs to see where alignment can be made with best practices adopted elsewhere.

**We are seeing continued stretch across key finance and IFRS 17 project teams post-publication of the HY23 reports and expect this to continue into FY23 reporting, and potentially beyond.**

*"It has been a long journey for the insurance industry given the original insurance accounting project started in 1997. There has been a significant amount of effort put in over the past three to five years to get the first set of accounts produced on an IFRS 17 basis. However, it's really exciting to finally see IFRS 17 live in action.*

*Looking ahead, I see insurers having 3 main priorities over the next 18 months - (1) getting over the line for YE23 reporting, (2) remediating tactical solutions that were put in place for YE23 reporting, and (3) focusing on unlocking the long term benefits of the significant investments made, through some version of finance transformation."*

**Alex Bertolotti**
PwC Global IFRS 17 Leader

# 2 Extent of disclosures at HY23

# Extent of disclosures at HY23

- When producing interim financial reports, entities follow the requirements of IAS 34. Unlike some other new accounting standards, IFRS 17 did not amend IAS 34 to bring in specific new interim disclosure requirements and so the general requirements of IAS 34 apply. Given the lack of prescription, insurers have exercised judgement in assessing the minimum requirements and discretion in determining how much information (if anything) to voluntarily disclose above this minimum. Given this context it is not unexpected that we have observed mixed practice from insurers when disclosing the impacts of IFRS 17 in their HY23 financial reports.
- Key areas where differences have been observed are:
  - Primary statements (balance sheet and income statement): These have varied in terms of the level of detail shown for comparative impacts - key items only or a full line-by-line reconciliation, and which comparative time periods have been shown.
  - Insurance contract notes: These have varied in terms of the level of detail shown for the opening to closing liability reconciliations, e.g. product splits and gross/reinsurance split, and which comparative time periods have been shown.
  - KPIs: Different definitions have been adopted for key metrics such as AOP for life insurers and COR for general insurers, making it challenging to assess operating performance on a like-for-like basis.
  - Key disclosure items:
    - Risk Adjustment (RA): There has been mixed practice on whether the percentiles have been disclosed and where it has, whether this is on a 1-year or to-ultimate basis or on a gross or net basis.
    - Transition judgements: Some firms have provided assumptions adopted in the fair value approach transition calculations, including sensitivity to these assumptions, whilst others have not.
    - Sensitivities: Some insurers have started to include IFRS 17 sensitivities whilst most continue to disclose Solvency II sensitivities in the front part of their interim statements.

**It is therefore challenging to draw quantitative comparisons at this point. More information will be provided by insurers at YE23 when the full IFRS 17 disclosures are required. The market may then be able to make further comparisons with the benefit of these fuller disclosures.**

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# Life insurance market deep dive

# Key observations

## Overall impacts:

- Headline metrics continue to focus on Solvency II and AOP
- Clear statement from insurers that IFRS 17 is not expected to impact strategy, capital generation, solvency or dividends
- Reporting dates for HY23 have often been later than HY22, often by a week or more.

## Impact on existing metrics:

- The definition of AOP has been updated by most firms for specific features introduced by IFRS 17, for example, some have made adjustments related to the contractual service margin (CSM).
- There continues to be a mix of metrics used by life insurers to assess new business value, be it Solvency II (typically adjusted) or IFRS. Where IFRS is used, this is now based on the CSM, although one firm did define a new metric called “new business deferred profit” which is the new business CSM plus RA, and another firm defined “manufacturing VNB” which is new business CSM and loss component plus non-attributable expenses and long term asset spreads.

## Insurance contracts disclosure notes:

- We have observed different levels of granularity in the disclosures required by IFRS 17 paragraphs 100 and 101 (analysis of change in liabilities by different components). This will be required at year-end so some firms may have further work to do to be able to produce these disclosures ahead of then.
- Only 2 life insurers provided IFRS 17 sensitivities, with others maintaining Solvency II sensitivities in the front part of their half year reports.

## Extent of disclosures:

- Level of disclosure on restated primary statements has varied - some have outlined impacts on key items only whereas others have included line-by-line impacts on the balance sheet as at 1 January 2022, 30 June 22, and/or 31 December 22
- Similarly, the level of disclosure of key judgements or outputs, such as the percentile for the RA has varied.

## New metrics and analysis:

- A number of new metrics have been defined by some insurers to highlight performance following the introduction of IFRS 17, for example:
  - CSM (+ RA) stock value and growth in this amount over time;
  - Adjusted shareholder equity (SHE) = IFRS 17 SHE + CSM (net of tax);
  - New business value = NB CSM + NB RA, net of acquisition expenses less loss component on onerous contracts
  - Operating value add = adjusted operating profit + change in operating CSM;
- In addition, a number of insurers are highlighting the analysis of change in CSM over a period to explain the growth in CSM, i.e. that new business CSM creation more than outweighs the amortisation of in-force CSM.

## Transition methods:

- There was limited disclosure on the assumptions and sensitivities adopted to derive the fair value approach (FVA) CSM, though a small number of firms did provide this.
- There was generally not enough information provided to enable relative comparisons between insurers such as the FVA CSM as a percentage of BEL at the product level.
- Due to the divergent approaches and lack of data one way to gain some understanding of relative strength is to look at Adjusted SHE.

# Adjusted Operating Profit

In a previous publication, we referenced potential adjustments companies may make to the definition of Adjusted Operating Profit (AOP, a key Alternative Performance Measure) given the introduction of IFRS 17. Whilst a number of the adjustments made previously remain unchanged, such as the exclusion of one-off project costs, M&A activity; we have observed a number of new adjustments being made due to IFRS 17 and an update to how the adjustment to use long term expected investment returns are applied in AOP in a number of cases.

One area where we have observed two separate schools of thought is around the **treatment of the CSM**. Under IFRS 17, the establishment of a CSM at inception defers profits, and future income arises from the subsequent amortisation of the CSM in future periods. We are observing insurers take one of two approaches when dealing with the CSM in AOP:

1. Exclude the CSM by recognising the profit from new business and including the impact of demographic assumptions changes in AOP, or
2. Maintaining alignment with IFRS 17 and therefore only including the in-year amortisation of CSM related to new business, demographic assumption changes and other CSM adjusting items in AOP.

The former approach more closely aligns with AOP prior to IFRS 17, so may achieve continuity to a degree.

| Adjustment | Description | Aviva | Just | L&G | LBG | M&G | PIC | Phoenix | Rothesay |
|---|---|---|---|---|---|---|---|---|---|
| Exclude CSM | Recognise the profit from new business and include the impact of demographic assumptions changes in AOP. The CSM amortisation from in force business is accordingly adjusted. | X[1] | ✓ | X | X | X | ✓ | X | ✓ |
| Adjust reinsurance | Adjust reinsurance by recalculating the amounts on a consistent basis with the gross insurance contracts. | X | X | ✓[2] | X | X | X | X | X |

Source: PwC analysis and interpretation of HY23 and related external disclosures

**Exclude CSM**

[1] Aviva has defined a new APM known as 'Operating Value Added' which is adjusted operating profit plus the operating change in the CSM, which achieves a similar outcome. In addition in the FY22 comparatives (July 2022), Aviva notes the following within AOP (pg 8): *"New business has generated … operating profit. IFRS 17 requires new business profits are deferred at inception, however we see a benefit from bringing the new business into our optimised portfolio compared to measuring each scheme on a stand-alone basis."*

**Adjust reinsurance**

[2] L&G remove the mismatch when reinsurance gains cannot be recognised to offset any inception losses on the underlying contracts where they are recognised before the new reinsurance agreement is signed.

**Key:**
✓ = AOP includes this adjustment
X = based on public disclosures this adjustment is not made

# Adjusted Operating Profit

Another key area where there is scope for IFRS 17 specific adjustments is the treatment of Variable Fee Approach (VFA) business (i.e. many with-profits or unit linked insurance contracts). In our previous publication, we highlighted that one possible adjustment could be to recalculate the CSM for VFA business using long term ("real world") financial assumptions. Whilst we don't believe any insurers are achieving this through the use of a parallel real-world CSM in their AOP calculation, some firms are basing the amortisation over the period on a long-term expected investment return.

| Adjustment | Description | Aviva | Just | L&G | LBG | M&G | PIC | Phoenix | Rothesay |
|---|---|---|---|---|---|---|---|---|---|
| Calculate VFA balances using long term ('real world') financial assumptions | Allowing for expected real world returns in assessing both the CSM release and the shareholders' share | ✓[3] | N/A | N/A | ✗[5] | ✓[4] | N/A | ✗[5] | N/A |
| Exclude locked-in CSM mismatch for GMM | For GMM business (notably annuities), the mismatch due to changes posted to the the CSM using locked-in rates is excluded from AOP | ✗[6] | N/A | ✗[6] | ✗[6] | ✓ | N/A | ✓ | N/A |
| Other adjustments | Various, see notes | ✓[8] | ✓[8] | ✓[8] | ✓[8] | ✓[7,8] | ✓[8] | ✓[7,8] | ✓[8] |

Source: PwC analysis and interpretation of HY23 and related external disclosures

**Long term financial assumptions**

[3] Aviva HY23 report (pg 117): *"Non-operating changes in the CSM consist of investment variances and economic assumption changes. … For contracts measured under the VFA, variance between the expected return on the shareholder share of underlying assets and the actual return are reported as non-operating changes in CSM."*

[4] M&G HY23 report (pg 50): *"The expected CSM release for the period is calculated as the CSM at the start of the period updated to reflect long-term expected investment returns multiplied by the expected amortisation factor for the period. … Adjusted operating profit .. in the With-Profits Fund also includes the expected investment return for the shareholder's share of the IFRS value of the excess assets in the Fund."*

[5] The specific treatment of the CSM in AOP is not explicit in the disclosures.

[6] Aviva explicitly include this item in AOP while the others are not explicit in their disclosure.

**Other adjustments**

[7] M&G and Phoenix explicitly exclude the IFRS 17 mismatch arising from non-profit business in a with-profit fund, that is the requirement to measure the non-profit liabilities using IFRS 17 while the interaction with the with-profit contracts (be that current or future policyholders, where applicable) is on a fair value basis.

[8] Where indicated, a number of annuity writers are including the impact of asset optimisation actions in AOP. In addition, some note that the annuity new business CSM (or value) is determined based on a target asset mix, albeit there is limited disclosure on the transition to the assets achieved.

**Key:**

✓ = AOP includes this adjustment

✗ = based on public disclosures this adjustment is not made

# Contractual Service Margin (CSM)

## Overview

With many insurers treating the CSM as a stock of future profits, the **sustainability** of the overall balance is being highlighted as an important factor for insurers. We observed many insurers explicitly illustrating the **growth of the CSM** over the HY23 period, showing that **new business CSM exceeded the release from amortisation of the in-force book**.

Whilst there was consistency in the narrative surrounding the CSM, we saw differences when it came to the Risk Adjustment. A number of insurers included the total of the CSM plus Risk Adjustment (RA) when describing the stock of future profits, whilst others did not highlight this. It is still too early to determine whether the CSM plus RA will be a definitive measure used to describe the stock of future IFRS 17 profits, but perhaps there will be further alignment in the future.

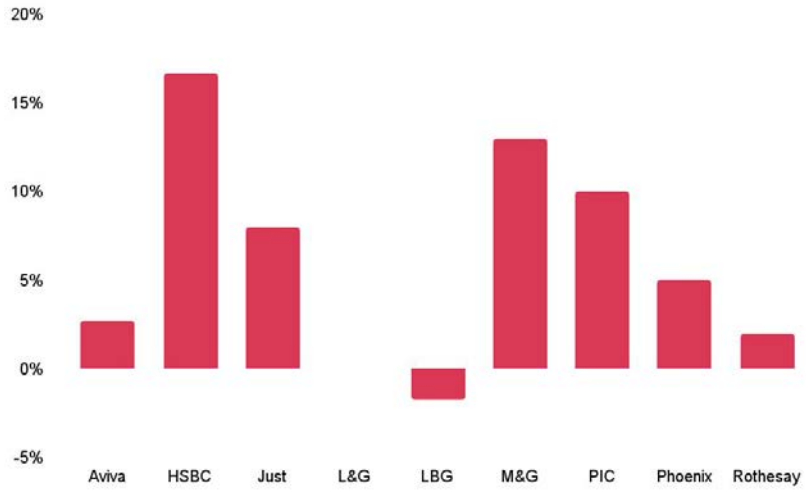
### Adjusted Shareholder Equity

Most insurers introduced a new metric, often defined as ‘Adjusted Shareholder Equity’, which is the IFRS shareholder equity plus the CSM (net of tax). Some insurers made additional adjustments, such as removing policyholder CSM for non-profit business in with-profit funds.

This metric may provide more comparability across insurers, as it removes any differences in the equity position which may have arisen at transition to IFRS 17 from the specific transition approach selected.

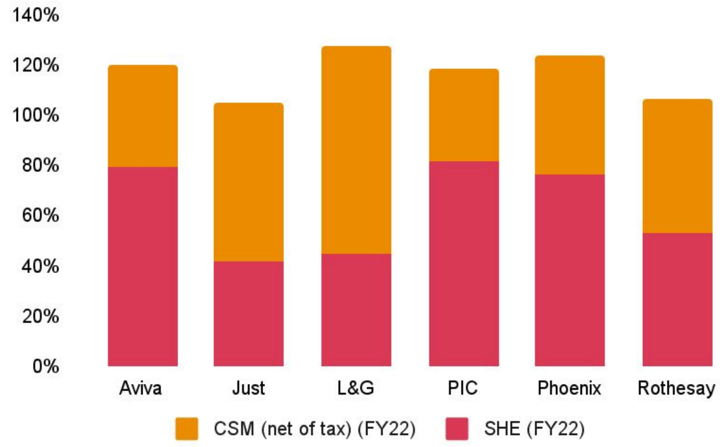
Some insurers have also included the adjusted shareholder equity in the denominator of their leverage ratio, with Phoenix clarifying its Fitch leverage ratio includes the CSM (net of tax) and a measure of the policyholders’ share of the with-profit estate.

### Percentage change in CSM from FY22 to HY23




Source: PwC analysis and interpretation of HY23 and related external disclosures

### Adjusted IFRS 17 equity as a % of IFRS 4 equity at FY22




*Note: M&G is excluded from the chart to enable a better relative comparability across other insurers. M&G’s IFRS 17 equity is c50% higher than IFRS 4 equity due to the recognition of value from future shareholder transfers arising from with-profit contracts.*

Source: PwC analysis and interpretation of HY23 and related external disclosures

# Contractual Service Margin (CSM)

## Expected release

As noted on the previous slide, the sustainability of the CSM is being highlighted by a number of companies in their half-year reports. One of the main drivers of future income is from the amortisation of the CSM. The accounting choice over the coverage units used to amortise the CSM can alter the speed of the release of these future profits. The graph below highlights the relative CSM release across companies during H1 23. In addition to selection of coverage units there are other drivers that impact the speed of release, for example, the mix and age of the business.

**% CSM release from amortisation[1] (HY23)**


Source: PwC analysis and interpretation of HY23 and related external disclosures

[1] The amortisation rate has been derived based on the following formula: Amortisation / (Closing CSM + Amortisation) It has been calculated on a net of reinsurance basis across all product line as sourced from HY23 disclosure.

**CSM Disclosures:**

Para 109 of IFRS 17 requires that: “An entity shall disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss quantitatively, in appropriate time bands. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.”

For HY23 reporting most insurers did not provide this information, as shown in the table below.

| Company | Aviva | HSBC | Just | L&G | LBG |
|---|---|---|---|---|---|
| Disclosure: para. 109 | ╳ | ╳ | ╳ | ╳ | ╳ |

| Company | M&G | PIC | Phoenix | Rothesay |
|---|---|---|---|---|
| Disclosure: para. 109 | ✓ | ╳ | ╳ | ✓ |

Source: PwC analysis and interpretation of HY23 and related external disclosures

# Contractual Service Margin (CSM)

## Coverage Units

Most firms explicitly included narrative around the measure of coverage units used for each product. For the majority of products, there was **consistency** in the measure being used.

| Product type | Measure used for coverage units |
|---|---|
| Immediate annuity | Expected annuity cash flow payments, aligned with the IFRIC interpretation in 2022 |
| Deferred annuity | • Deferral phase: Expected investment return or transfer value.<br>• Payment phase: As for immediate annuities above.<br>• Weighting between deferral and payment phase: Mixed - see box on the right. |
| Individual and Group Protection | Sum Assured |
| Individual and Group Income Protection | Annualised amount of income, benefit amount payable or sum assured |
| With-profits | Based on asset share (e.g. asset share, asset share plus cost of guarantees, maximum of asset share or sum assured) |
| Unit-linked | Unit fund value or sum assured including unit fund value |

Source: PwC analysis and interpretation of HY23 and related external disclosures

**Deferred Annuities**

For contracts that provide both insurance and investment services (e.g. deferred annuities), firms need to weight the two services to derive the aggregate coverage units provided in each period. Of those companies who explicitly disclosed their coverage unit methodology, we observed a mixture of approach used:

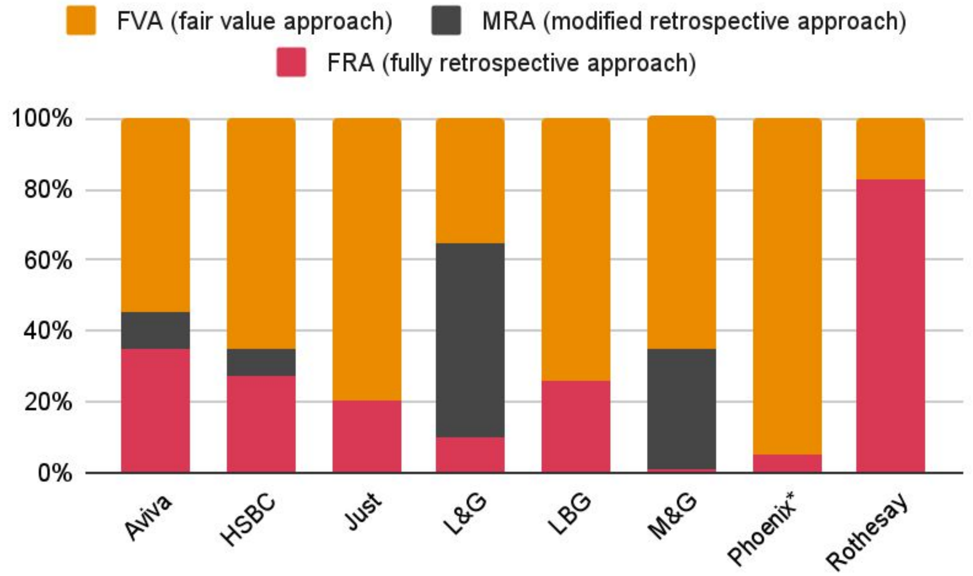
- Two firms blend the coverage units such that by the time a deferred annuitant reaches retirement, the CSM is consistent with that of an equivalent immediate annuitant.
- One firm weighted on the assumption that the value of services provided to policyholders is broadly equivalent across the different phases in the life of contracts.
- One firm noted that coverage units are weighted to target that all of the CSM is earned in the deferral phase for all contracts which do not enter the payment phase either through transfer out, withdrawal of funds or death.

# Transition

## Approach

We observed a **wide range** in the transition approaches adopted across firms, as illustrated in the chart below. This would likely lead to differences in the relative size of the transition CSM by insurer, however, insufficient information was disclosed by insurers at HY23 to make a comparison of the CSM by transition approach relative to the size of the business, for example the BEL.

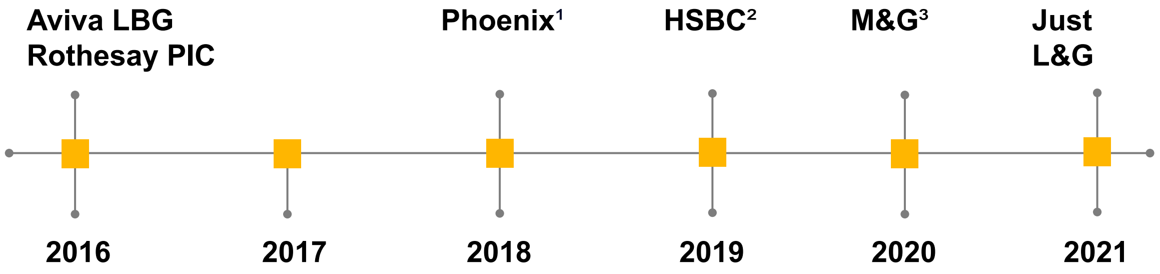
**Percentage of business using each transition approach by firm**




Source: PwC analysis and interpretation of HY23 and related external disclosures

*On transition, 58% of the CSM (net of reinsurance) is calculated under the FRA and 42% under the FVA. However, of the business transitioned under FRA a significant amount of the CSM relates to the ReAssure business acquired in 2020 and fair valued at that date. Phoenix considers c.95% of the liabilities to be a more accurate reflection of the use of the FVA, as is shown in this chart.

**Application of the Fully Retrospective Approach**




[1] For Phoenix, we have chosen the date which relates to Sun Life policies. For annuities and unit-linked policies from Standard Life Assurance business, FRA is applied from 1 January 2021. For ReAssure Assurance Limited annuities and non-profit policies, it is from the acquisition date of the ReAssure entities.

[2] For HSBC, we have chosen the date which relates to the UK insurance business.

[3] For M&G, we have chosen the FRA date which applies to with-profits contracts.

### Assessing impracticability

Where the fully retrospective approach could not be applied, firms commonly cited that this was due to the data, systems and/or models required to calculate the **risk adjustment** not being available prior to Solvency II implementation, which came into effect on 1st January 2016.

# Transition

## Fair Value

Where firms have adopted the fair value approach for determining the CSM at transition, a fair value of the (re)insurance contracts needs to be determined in line with the IFRS 13 requirements (excluding the deposit floor). Given quoted market prices are not often readily available for such contracts, there are a number of judgements that companies need to make in order to arrive at an estimate. Various inputs, such as the solvency coverage ratio and the rate of return on capital, will have a significant impact on the overall fair value.

Whilst all insurers provided an overview of the fair value calculation for half-year reporting, relatively few provided information on the explicit inputs used in the calculation. We may see further detail on the inputs into their fair value calculations and associated sensitivities at year-end.

| Insurer | Solvency coverage ratio | Return on capital | Sensitivities included? |
|---|---|---|---|
| Aviva | 160% - 180% | Not disclosed | No |
| Just | 140% | 8% | Yes |
| M&G | 135% | 7% | Yes |

Source: PwC analysis and interpretation of HY23 and related external disclosures

**Reporting at HY23 provided limited quantitative information on the fair values at transition, so an assessment of the relative strength was not possible (e.g. FV as a % of BEL for applicable products). Further disclosures by insurers at FY23 may provide more insight to this significant judgement/estimate at transition.**

# Risk adjustment

There has been varied practice from life insurers in terms of whether a 1-year percentile, an ultimate view percentile or both have been disclosed to the market. More life insurers have provided the 1-year percentile at this stage, however, it will be interesting to see if more firms disclose the ultimate percentile in their full set of IFRS 17 disclosures at FY23. The 1-year percentiles have ranged from 75th to greater than the 90th and the ultimate percentiles (albeit limited) have ranged from 65th to 70th. Disclosures have not always specified if this is on a net or gross of reinsurance basis and approaches have varied between value-at-risk methods and cost of capital methods.

| Company | 1-year percentile | Ultimate percentile |
|---|---|---|
| Aviva[1] | 85-90th | c. 70th |
| HSBC[1] | 75th | N/A |
| Just | c. 90th | 70th |
| L&G | 85th | N/A |
| LBG | N/A | N/A |
| M&G | 75th | N/A |
| PIC | 85th | N/A |
| Phoenix | 80th | N/A |
| Rothesay | >90th | c. 65th+ |

Source: PwC analysis and interpretation of HY23 and related external disclosures
[1] Data for Aviva and HSBC is from their IFRS 17 investor presentations / recording

# Disclosures

## (Re)insurance Contract Reconciliations

As part of the disclosure requirements, IFRS 17 requires companies to produce two reconciliations for the (re)insurance contract assets and liabilities from the opening to the closing position (paragraphs 100 and 101). The table to the right highlights that for half-year reporting, there was **divergence** in the disclosures that companies provided.

The full set of disclosures will be required as part of **year-end reporting**, however, in order to avoid lengthy annual reports, insurers may look to rationalise these disclosures by presenting this information by main product line (e.g. Life, GI) instead of by segment.

| | Analysis by LFRC/LFIC (para 100) | | | Analysis by BEL/RA/CSM (para 101) | | |
|---|---|---|---|---|---|---|
| **Company** | **Periods** | **Gross** | **Reinsurance** | **Periods** | **Gross** | **Reinsurance** |
| Aviva | None | | | HY23, FY22 | ✓ | ✓ |
| HSBC | None | | | FY22 | ✓ | ✗ |
| Just | None | | | HY23, FY22, HY22 | ✓ | ✓ |
| L&G | None | | | None[1] | | |
| LBG | None | | | None[2] | | |
| M&G | None | | | HY23, FY22, HY22 | ✓ | ✓ |
| PIC | None | | | None | | |
| Phoenix | None | | | HY23, FY22 | ✓ | ✓ |
| Rothesay | HY23, FY22, HY22 | ✓ | ✓ | HY23, FY22, HY22 | ✓ | ✓ |

Source: PwC analysis and interpretation of HY23 and related external disclosures

[1] L&G included a reconciliation of the CSM only for HY23, FY22 and HY22 in the front part of the HY23 accounts.
[2] LBG included a reconciliation of the CSM and RA only for HY23 and HY22 in the front part of the HY23 accounts.

# 4 General insurance market deep dive

# Key observations

We have reviewed a wide range of half year 2023 financial results and disclosures. We have considered a sample that includes companies headquartered within as well as outside of the UK given the broader consistency across products. In total 17 general insurance (GI) companies (including composites and reinsurers) were included, with a majority headquartered in UK or Europe with significant UK business.

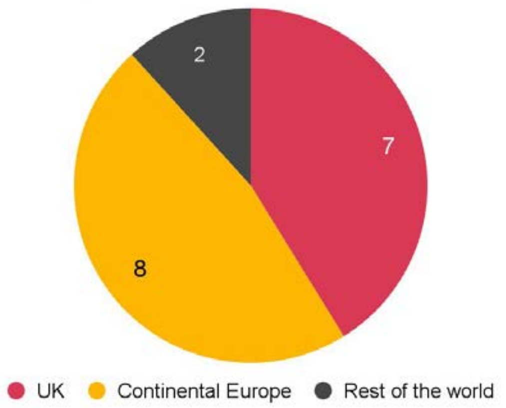
**Key observations on KPIs and primary statements include:**

- Headline KPIs continue to focus on business volumes, revenue and profitability, though the definition of the KPIs and the selected KPIs themselves vary across the disclosures. It should be noted that the definition of some KPIs has remained unchanged under IFRS 17 (for e.g. Return on Equity) and haven't been considered for our analysis.
- Almost all companies have published the primary statements at HY23 along with restated HY22 primary statements and in some cases also showing corresponding restated figures at FY22.

**Key observations on insurance contracts disclosures include:**

- The level of disclosures within the notes to accounts varies from key items only to detailed reconciliations. Some insurers have disclosed figures as at 4 reporting dates, i.e. HY23, FY22, HY22 and 1 January 2022.
- Almost one fifth of companies fully apply the Premium Allocation Approach (PAA), while a similar proportion have chosen to apply the General Measurement Model (GMM) exclusively, with the remaining applying a mix of both.
- The transition approach also varies. All companies have used the fully retrospective approach (FRA) for some of their business, with about a third of them using it exclusively. About a quarter of the companies have used all three approaches, i.e. including modified retrospective approach (MRA) and fair value approach (FVA).
- Almost all companies have disclosed the approach used to calculate risk adjustment together with a specific (point estimate or a range) confidence level at which the risk adjustment was estimated. Similarly almost all companies have disclosed the approach to setting discount rates.
- Nearly two thirds of the companies reviewed have disclosed a reconciliation between the opening and closing position of insurance contract liabilities and assets separately for insurance contracts issued and reinsurance contracts held. The reconciliations show movements by liability for incurred claims (LFIC) and liability for remaining coverage (LFRC) as well as by underlying components (e.g. cash flows, risk adjustment and CSM), however the level of detail provided is varied.

**Companies reviewed by location of headquarters**



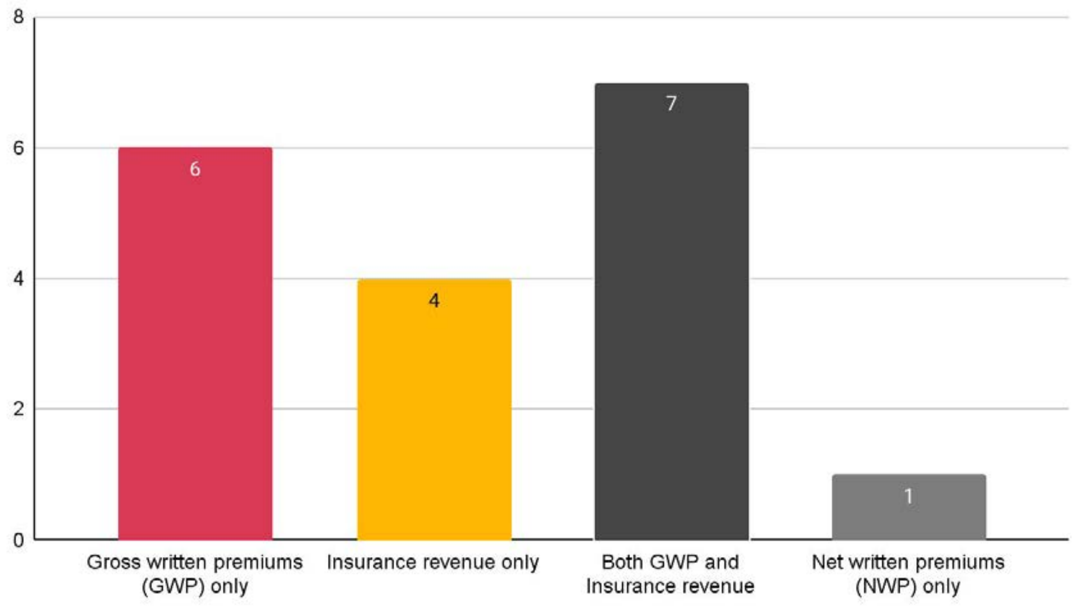

Source: PwC analysis and interpretation of HY23 and related external disclosures

**KPIs (including new IFRS 17 KPIs) considered for our analysis**

| Existing KPIs | New IFRS 17 KPIs |
|---|---|
| • Gross Written Premium<br>• Combined Operating Ratio (COR)<br>• Loss Ratio<br>• Expense Ratio<br>• Adjusted Operating Profit (AOP)<br>• Net Income | • Insurance Revenue<br>• Insurance Service Result<br>• Insurance Financial and Investment Result |

# Gross Written Premiums (GWP) and Insurance revenue

## Number of companies using GWP or insurance revenue as KPIs




Source: PwC analysis and interpretation of HY23 and related external disclosures

**GWP remains popular but IFRS 17 insurance revenue is catching up**

Fewer than half (seven) of the companies in our sample disclosed both GWP and IFRS 17 insurance revenue KPIs, with only one showing a comparison between the two in order to explain the difference. There would appear to already be an expectation that users of the financial information are familiar with the concept of IFRS 17 insurance revenue.

Due to its **simplicity and ease of understanding**, GWP continues to remain a preferred revenue KPI for GI companies. For the companies considered in our sample, just over a third have only disclosed GWP. In total across the sample, GWP was disclosed by all companies based in the UK and outside of Europe, but by only half of those based in continental Europe.

IFRS 17 insurance revenue has emerged as a new revenue KPI, possibly given it is required to be presented on the face of the IFRS 17 income statement. Four (about a quarter) of the companies reviewed have disclosed insurance revenue instead of GWP. Seven companies have also disclosed insurance revenue along with GWP. In terms of a regional split, we observed that insurance revenue appears to be more popular with continental European companies with three quarters of the companies disclosing it as one of its KPI, compared to about 60% of the companies based in the UK and rest of the world.

A small number of companies continue to use IFRS 4 terminology (i.e. earned premiums) to describe insurance revenue. It is unclear whether this is transitory or will remain in the long-term.

Net written premium was only disclosed by one company, indicating the shift under IFRS 17 to look at gross and reinsurance business separately.

We observed that two companies have made certain adjustments to the GWP (under IFRS 4) to make it consistent with IFRS 17 insurance revenue. The adjustments made include allowing for voluntary written reinstatement premiums (considered as premium under IFRS 17) and removing written profit commissions that are dependent on claims (not considered as premium under IFRS 17).

# Combined Operating Ratio (COR)

COR (Combined Operating Ratio or Combined Ratio) has historically been a KPI disclosed across the market to illustrate performance. It is generally defined as the level of claims and technical expenses incurred during the period, relative to insurance revenues. It is usually calculated as the sum of the loss ratio and the expense ratio.

COR is not a required IFRS 17 disclosure **but all GI companies in our sample continue to disclose this ratio as a KPI**. We note that there is no standard method of calculation, which makes comparison across companies more challenging. We observed that the companies have used varying definitions to calculate the IFRS 17 COR with the most common differences being in:

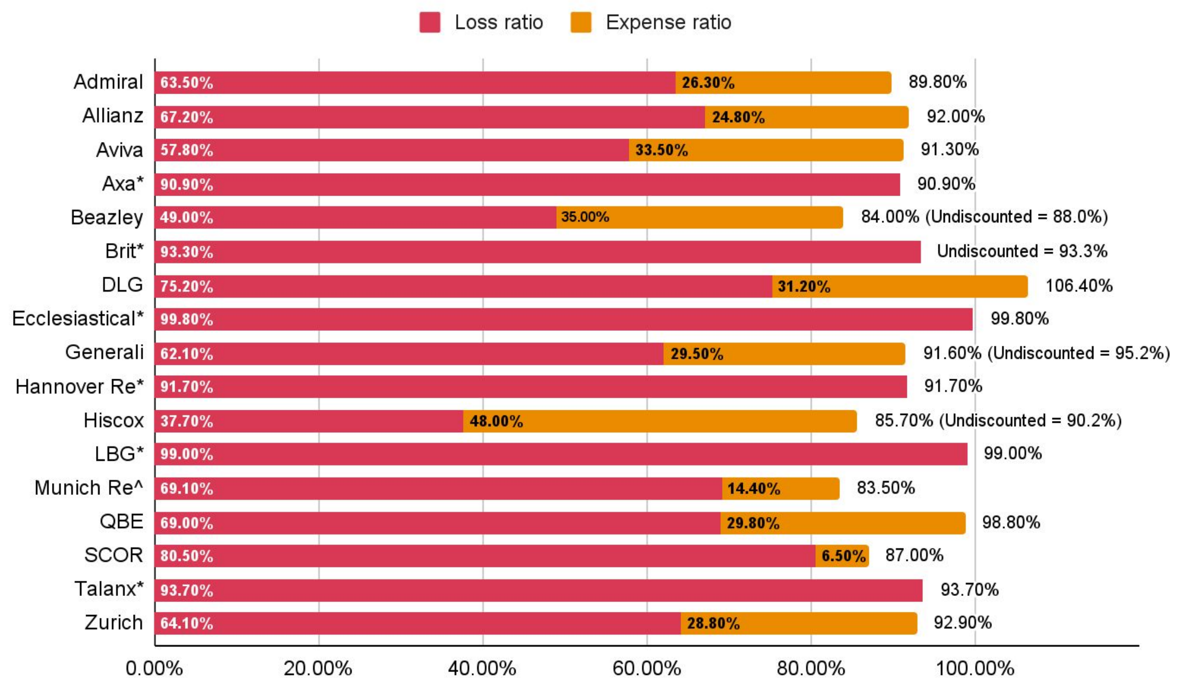
- the denominator used (i.e. the insurance revenue) - either on a gross or a net of reinsurance basis
- using a discounted or undiscounted basis
- any allowance for non-attributable expenses

**Challenges for direct comparison between GI companies**

The COR shown in the chart provides an indication of each companies' standalone profitability, however, it may not be directly comparable across the companies because:

- Four (out of 17) companies have used insurance revenue (gross of reinsurance) as the denominator, others have deducted reinsurance premiums.
- Two companies have allowed for non-attributable expenses (impacting the numerator).
- One has calculated the COR by making a number of adjustments including removing discounting and risk adjustment impacts, allowing for other operating expenses etc.

## HY23 COR (discounted)

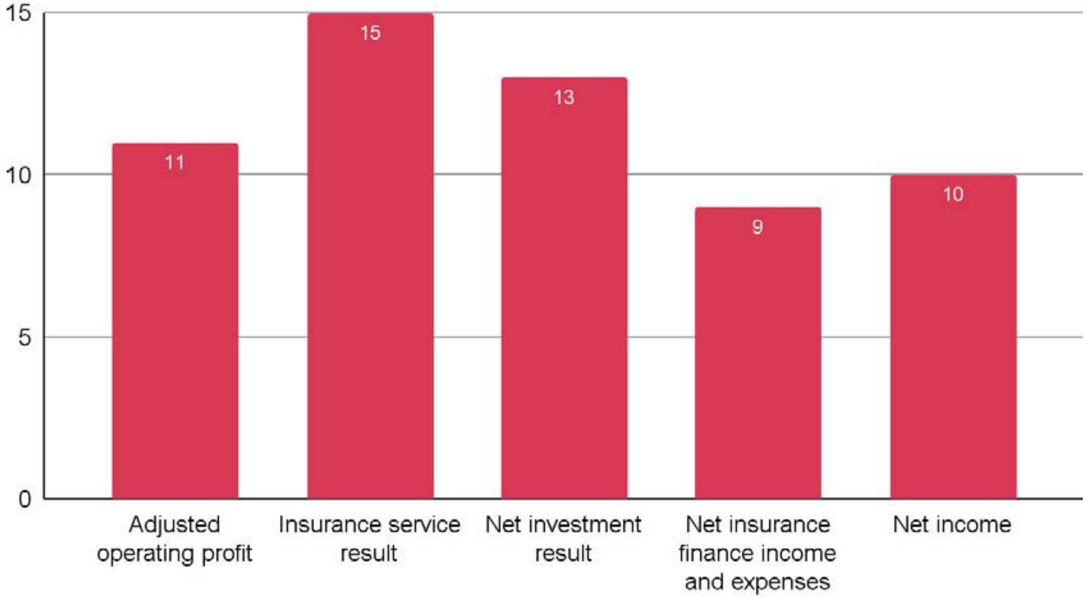



Source: PwC analysis and interpretation of HY23 and related external disclosures

*Split of loss ratio and expense ratio not disclosed
^Reinsurance property-casualty (major segment), total property-casualty COR not disclosed

# Adjusted operating profit and Income Statement line items

**Number of companies using adjusted operating profit or income statement line items as KPIs**




Source: PwC analysis and interpretation of HY23 and related external disclosures

**Trend towards using income statement IFRS 17 line items**

In contrast with the Life market, there is a clear shift towards the use of IFRS 17 income statement line items as the KPIs for profitability. Some companies, however, appear to have retained IFRS 4 terms such as 'Underwriting result' (with or without certain adjustments) instead of 'Insurance service result'. In a few cases, we observed that the companies have chosen to combine finance and investment results.

Adjusted operating profit (AOP) is commonly used as a measure of profitability that complements the IFRS profitability line items. It does not have a standard definition and can vary across companies. In their HY23 publications, companies have generally calculated it by adjusting the IFRS 17 'Insurance service result' to include non-insurance income and expenses.

**AOP continues to be a popular KPI, however a high proportion of companies mention the IFRS 17 'Insurance service result'** explicitly as a KPI of financial performance (albeit sometimes using IFRS 4 terminology).

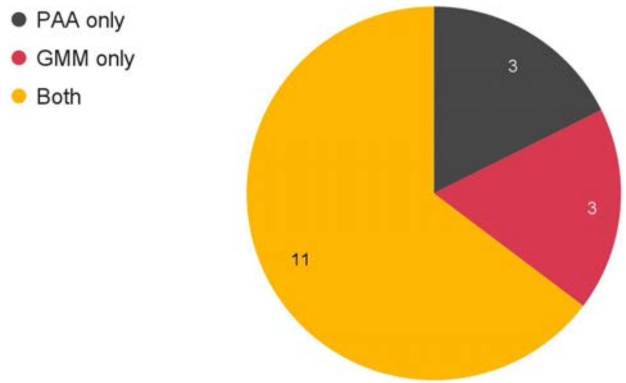
Eleven of the companies reviewed have chosen to disclose both AOP' and 'Insurance service result'.

In addition to 'Insurance service result', we observed a variety of other income statement line items (directly or with certain modifications) being used as profitability KPIs by different companies. The 'Net insurance finance income and expenses' line item was disclosed less frequently, despite it representing the discounting impact on insurance contract liabilities and assets which is a new concept under IFRS 17 for GI companies.

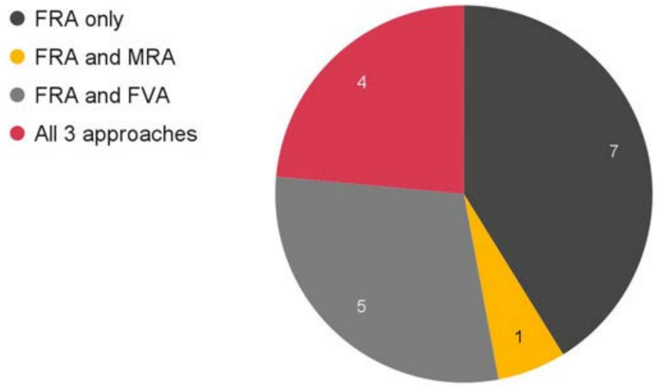
# Disclosures

## Measurement Model, Transition and Discounting

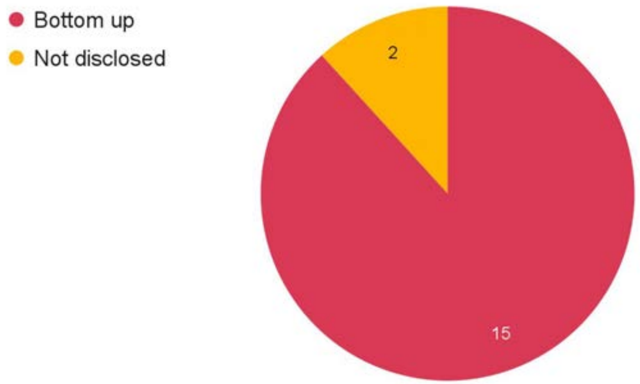
**Measurement models used (number of companies)**




**Transition approaches used (number of companies)**




**Discounting approaches used (number of companies)**




Source: PwC analysis and interpretation of HY23 and related external disclosures

### Measurement model

Three (about a fifth) of the companies reviewed apply the Premium Allocation Approach (PAA) to measure 100% of their business.

Another three companies apply the General Measurement Model (GMM) exclusively.

The remaining companies (nearly two thirds) apply a mix of both PAA and GMM.

### Transition approach

All companies have used the Fully Retrospective Approach (FRA) with about a third using it for 100% of their business.

Ten (nearly two thirds) companies have used multiple approaches for transitioning to IFRS 17.

Four companies have used all three approaches.

No company has exclusively applied the Modified Retrospective Approach (MRA) or Fair Value Approach (FVA).

We observed that some companies have used FRA for business recognised from 2016 onwards and either MRA or FVA for business prior to 2016.

### Discounting

A significant majority of the companies (15 of 17) have used the ‘bottom up’ approach for deriving the discount rates used for discounting the (re)insurance contract liabilities and assets.Two companies did not disclose the approach used and none have used a ‘top down’ approach.

Along with the approach used to derive discount rates, nearly two thirds of the companies have disclosed the yield curves (liquid risk-free yield curve with an allowance for illiquidity) used for HY23 discounting calculations, with some also providing FY22 and/or HY22 curves.

None of the companies have specifically disclosed the size of the illiquidity premium (ILP). Where described, the ILP is estimated based on adjusting market-observable liquidity premiums in financial assets.

# Disclosures

## (Re)insurance contract liabilities and assets

| Company | Figures disclosed for | Reconciliations/ Analysis of Change | | | | |
|---|---|---|---|---|---|---|
| | | Insurance contract balances[1] | Reinsurance contract balances | Net insurance contract balances | Analysis by LFRC and LFIC (para 100) | Analysis by component (PVFCF[2], RA[3], CSM) (para 101) |
| Admiral | HY23, FY22, HY22 | ✔ | ✔ | ✔ | ✔* | ✔* |
| Allianz | HY23, FY22, HY22 | ✔ | ✔ | | ✔ | ✔ |
| Aviva | HY23, FY22 | ✔ | ✔ | | ✔ | |
| Axa | HY23, FY22, HY22 | ✔ | ✔ | | ✔ | ✔ |
| Beazley | HY23, FY22, HY22 | ✔ | ✔ | | ✔* | ✔* |
| Brit | HY23, FY22, HY22, OBS[4] | | | ✔ | ✔ | |
| DLG | HY23, FY22, HY22, OBS | ✔ | ✔ | | ✔ | |
| Ecclesiastical | HY23, FY22, HY22 | ✔ | ✔ | ✔ | ✔* | |
| Generali | HY23, FY22, HY22, OBS | ✔ | ✔ | | | ✔ |
| Hannover Re | HY23, FY22 | | | ✔ | ✔ | ✔ |
| Hiscox | HY23, FY22, HY22, OBS | | | ✔ | ✔ | |
| LBG | HY23, FY22, OBS | | | ✔ | | ✔* |
| Munich Re | HY23, FY22, HY22 | ✔ | | | | ✔* |
| QBE | HY23, FY22 | | | ✔ | ✔ | |
| SCOR | HY23, FY22 | ✔ | ✔ | | | ✔* |
| Talanx | HY23, FY22 | ✔ | ✔ | | ✔ | ✔ |
| Zurich | HY23, FY22 | ✔ | ✔ | | ✔^ | ✔^ |

[1] Reference to insurance contracts issued should be read to also include reinsurance contracts issued;

[2] Present value of future cash flows;

[3] Risk adjustment;

[4] Opening balance sheet (i.e. at 1 January 2022);

*Condensed disclosures, i.e. have not included the details of each driver of the movement;

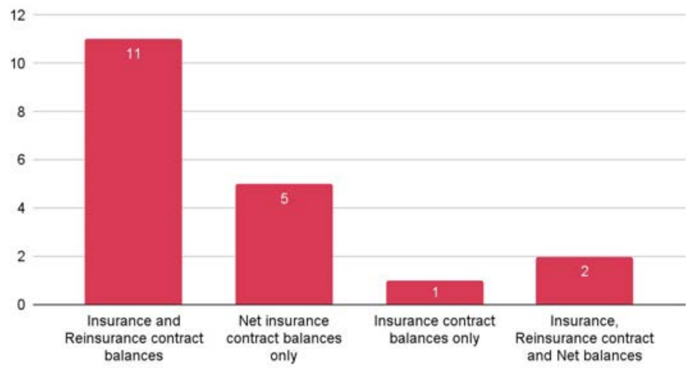
^Detailed disclosures, including separate disclosures for contracts measured under each measurement model.

Source: PwC analysis and interpretation of HY23 and related external disclosures

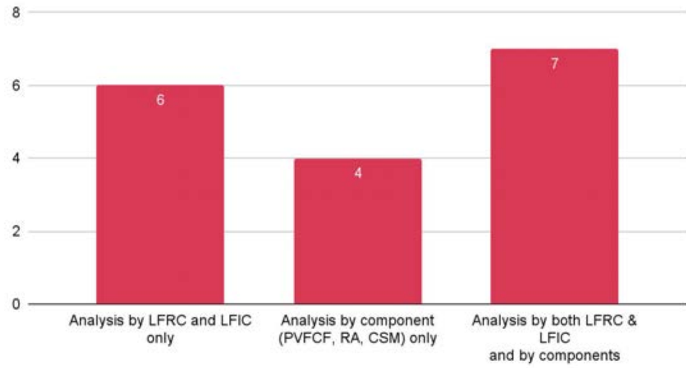
# Disclosures

## (Re)insurance contract liabilities and assets

**Basis of insurance contacts liabilities and assets disclosure (number of companies)**




**Movement analysis by type and component of insurance contracts liabilities and assets disclosed (number of companies)**




Source: PwC analysis and interpretation of HY23 and related external disclosures

All of the GI companies reviewed have disclosed a reconciliation between the opening and closing position of the (re)insurance contract liabilities and assets. However, the type of disclosures varies. 11 (nearly two thirds) of the companies reviewed have provided information on insurance contracts issued[1] and reinsurance contracts held separately, whereas five companies have only disclosed the information on a net basis.

Although each company has disclosed a movement analysis of the (re)insurance contract liabilities and assets, some (6) have disclosed specific reconciliations for the liability for remaining coverage (LFRC) and the liability for incurred claims (LFIC), while others (4) have disclosed the analysis by component of the liabilities and assets, i.e. present value of future cash flows, risk adjustment and contractual service margin. Just under half (7) have provided both sets of reconciliations.

All companies reviewed have compared the HY23 results with FY22 results. Some have also disclosed figures at HY22 and 1 January 2022 (opening IFRS 17 comparative) as part of their notes to the accounts.

Only 4 companies have analysed the impacts of changes in key assumptions on the (re)insurance contract liabilities and assets. All four considered the impact of changes in discount rates while two also considered the impacts of changes in risk adjustment, loss ratios and claims inflation.

**Variation in the level of detail across HY IFRS 17 disclosures**

Six (about one third) of the companies reviewed have only provided condensed (re)insurance contract liabilities and assets disclosures, i.e. they have not included each driver of the movement between opening and closing balances, which will be required for reconciliations for YE23.

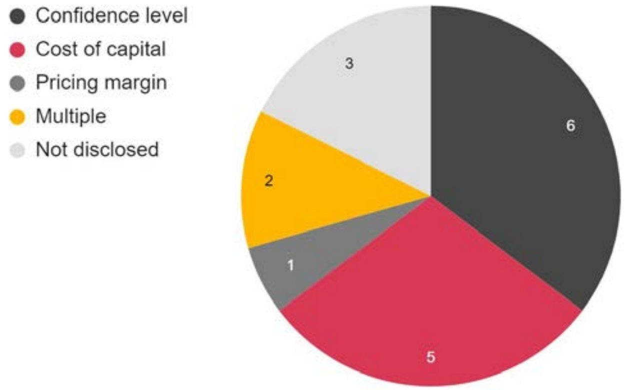
On the contrary, only one company has provided extensive details, including separate tables for insurance contracts issued and reinsurance contracts held as well as for groups of contracts measured under each measurement.

[1] Reference to insurance contracts issued should be read to also include reinsurance contracts issued.

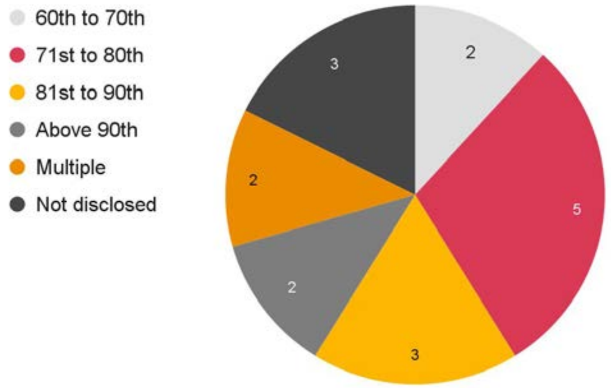
# Disclosures

## Risk adjustment and confidence level

**Risk adjustment approach used (number of companies)**




**RA confidence level disclosed (number of companies)**




Source: PwC analysis and interpretation of HY23 and related external disclosures

Most of the companies reviewed have described the methodology used to calculate the risk adjustment. Confidence level was the most commonly used approach, followed by cost of capital and pricing margin. Within confidence level approach, value-at-risk (VaR) was the most widely used technique, with only one company using a bootstrapping technique. Some companies have used multiple approaches, with a different approach used for different parts of their business (for example, insurance vs reinsurance business).

The risk adjustment confidence level is a required disclosure under IFRS 17. The majority of GI companies have disclosed it within their HY23 reports, however some have disclosed a range instead of a point estimate, and some have not disclosed a confidence level at all. This may indicate that some companies are still considering how to best present this metric to the market. Given the sensitivity of this metric, companies could also be looking for more information on the general range of confidence levels across the market.

The 'Mixed' risk adjustment confidence level category includes companies that have not disclosed an overall percentile but have instead disclosed different percentiles for different parts of their business. For example, separate percentiles for different business segments or short-term versus long-term contracts.

**Challenges when comparing confidence levels**

The IFRS 17 Standard does not prescribe a standard basis for the RA confidence level disclosure. As a result, different companies have discloses percentiles calculated on different bases. For example,some companies have disclosed confidence level for LFIC only whereas others have disclosed at a total (LFIC + LFRC) level. Some companies have disclosed a gross confidence levels and others a net one. Additionally, for HY23, one company has estimated the confidence level using a one-year horizon (instead of an ultimate view).

# 5 Closing thoughts

# Closing thoughts

**Extent of reporting**

- The level of disclosure of IFRS 17 impacts at HY23 has varied across the market both in terms of the breadth of disclosures included and the granularity within.
- Given the lack of prescription in IAS 34, insurers have exercised judgement and discretion in determining how much information to disclose and the disclosures have typically been less than what we expect to see at the year end.
- Overall there has been a clear indication from insurers that IFRS 17 is not expected to impact strategy, capital generation, solvency or dividend policy.

**New measures emerging but lack of consistency**

- New IFRS 17 measures are emerging but there is a lack of consistent definitions making it difficult to always be able to make meaningful comparisons. Whilst this was also the case under IFRS 4, one of the hopes from IFRS 17 was that there would be increased consistency.
- Due to different transition approaches adopted and varying definitions of AOP under IFRS 17, adjusted equity is emerging as one way to gain some understanding of the relative strength of life insurers on adoption of IFRS 17.
- COR continues to be one of the main metrics used by GI companies albeit with varying definitions.

**Level of preparedness**

- Overall the extent of disclosures at HY23 may be an indication that firms still have work to do ahead of YE23, where the full IFRS 17 disclosures will be required.
- Only once we have the YE23 results and associated disclosures will stakeholders be able to perform a more comprehensive assessment across insurers.

**Next steps**

- Insurers should carefully analyse the disclosures made by their peers to see where leading practices can be adopted and listen to what the investor / analyst community are most interested to see under the new Standard.
- We are supporting Life, GI and reinsurance firms with their final sprint ahead of FY23 reporting, so reach out to your local PwC contact as you enter the final stage of your project.

# 6 Contacts

# Key contacts

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Maneet Kathpal


# 7 Appendices

# List of insurance companies considered

| Company | Business included in sample |
|---|---|
| Admiral | Non-life |
| Allianz | Non-life |
| Aviva | Life and non-life |
| Axa | Non-life |
| Beazley | Non-life |
| Brit | Non-life |
| DLG | Non-life |
| Ecclesiastical | Non-life |
| Generali | Non-life |
| Hannover Re | Non-life |
| HSBC | Life |
| Hiscox | Non-life |

| Company | Business included in sample |
|---|---|
| Just Group | Life |
| Legal and General | Life |
| LBG | Life and non-life |
| M&G | Life |
| Munich Re | Non-life |
| PIC | Life |
| Phoenix | Life |
| Rothesay | Life |
| QBE | Non-life |
| SCOR | Non-life |
| Talanx | Non-life |
| Zurich | Non-life |

# Thank you

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