

Financial communication and KPIs under IFRS 17

Market insights

December 2022





Context and objective

- This document aims at **collecting IFRS 17 related market information published by (re) insurers players** and focuses on **Financial Communication and KPIs** related topics.
- This publication has been prepared **for general guidance on matters of interest only and does not constitute professional advice.**
- At this stage, current document focus only on main European and Canadian (re) insurers which have been publishing IFRS 17 financial communication.
- Information included in this presentation are based on public announcements made up to December 9th, 2022. As players will be publishing on an ongoing basis, **this view will be updated mid 2023** to reflect latest position from the market.
- To note that Analysts point of view has been integrated in some instances where relevant.

Panel of Direct insurers

Composite	Allianz	Generali	NN Group	a.s.r	Ageas
	Zurich	Lloyd's	AXA	Aviva	
L&H	Sun Life			Legal & General	
	Manulife			HSBC Insurance	
P&C	Tryg			MAPFRE	

Panel of Reinsurers

Composite	Swiss Re	SCOR
	Munich RE	Hannover Re

* A.S.R and Generali : Mainly P&C business
NN Group, Aviva and Ageas : Mainly L&H business

Agenda



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Insights on
IFRS 17
Publication
timeline



2

Insights on
methodology
and strategic
decisions
choices



3

First view
on IFRS
17 KPIs



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Key
considerations
on dividend,
cash and
capital
generation



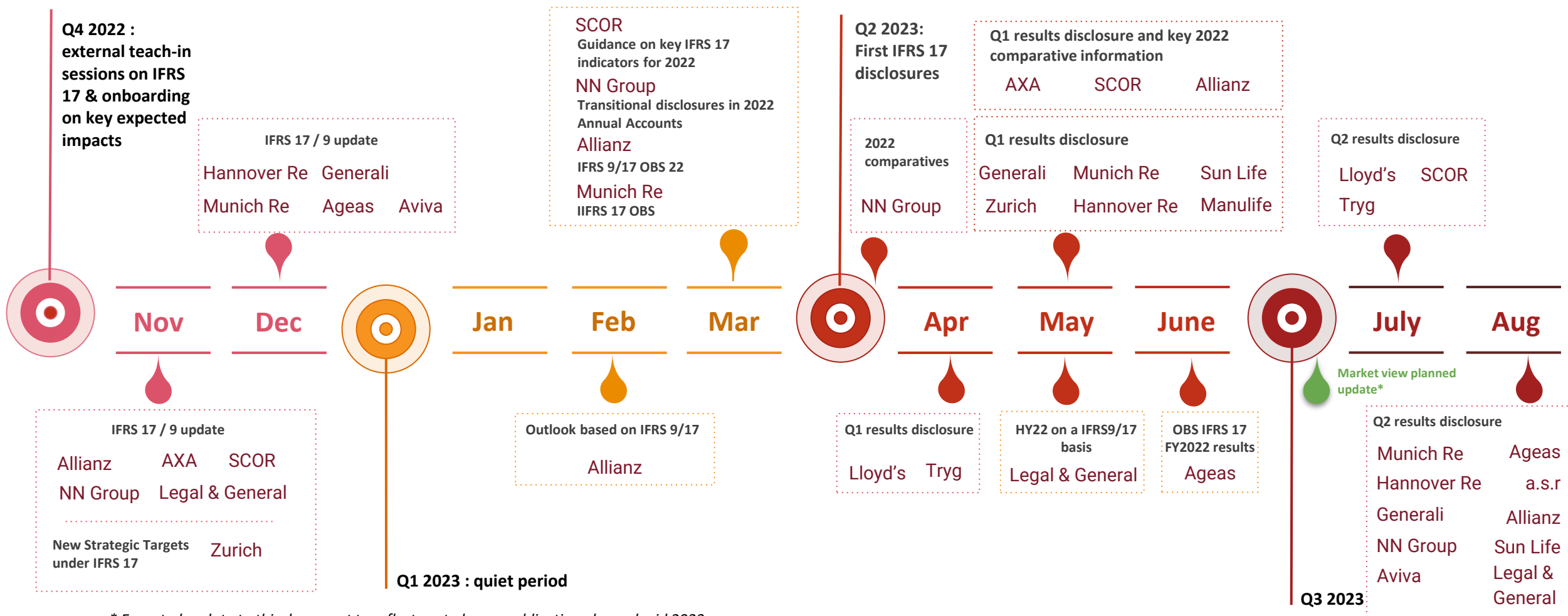
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Multi-gaap
considerations -
Solvency II



Insights on IFRS 17 Publication timeline

- IFRS 17 publications are accelerating towards the end of 2022 with meetings held within the investment community.
- During the first half of 2023, some players commit to display 2022 comparatives figures.





Methodology and strategic decisions choices ^(1/3)

Methodology and strategic decisions will drive financial communication and related KPIs over the next years

Equity impact at transition

71%¹



Of players **Expect a decrease of Equity at transition** compared to IFRS 4 due to the introduction of CSM and RA.

Other market positioning

Stable or neutral

AXA Tryg

AXA expected a neutral Equity impact excluding OCI EUR 58 bn

Increase

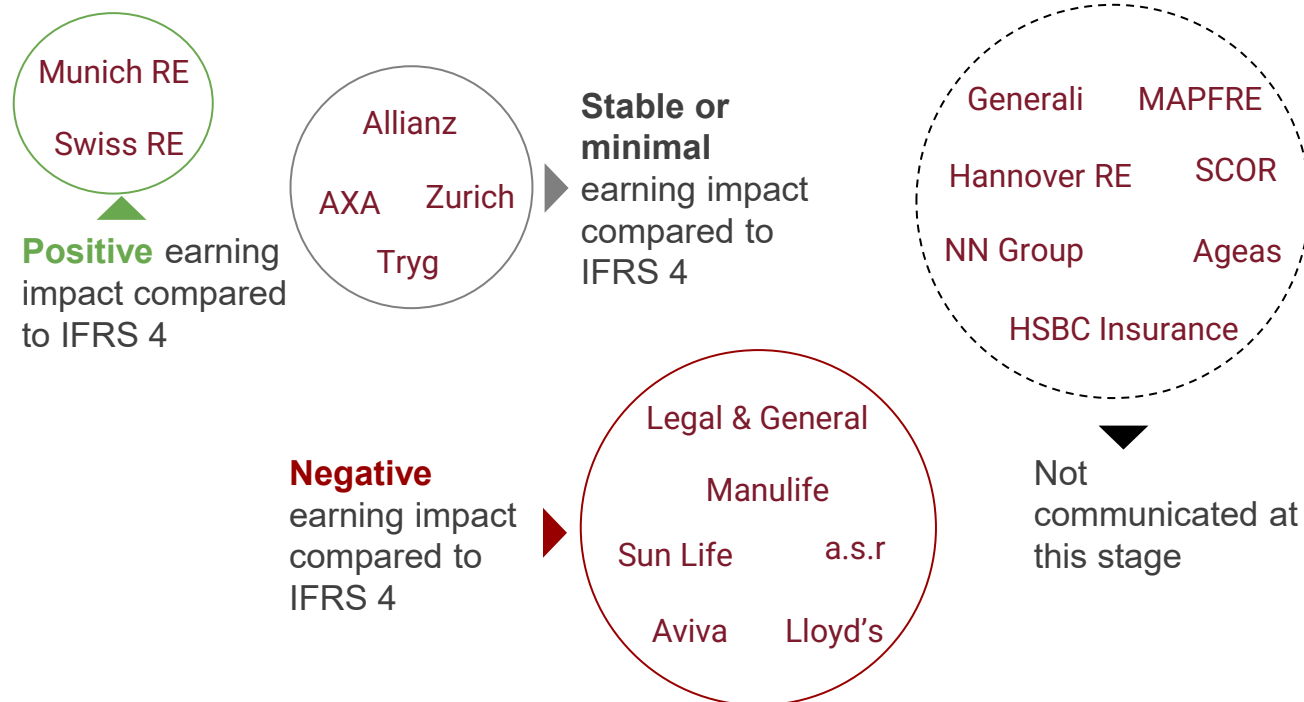
a.s.r

Only ASR insurance will expect an increase of Equity of +6% at transition.

Earning generation impact

Emerging trend with a negative impact on earning compared to IFRS 4 (driven by L&H business).

However, half of the companies did not publish expected impact at this stage.





Methodology and strategic decisions choices (2/3)

Risk Adjustment methodology

Panel split **between Quantile and Cost of capital approach** with a **trend for quantile approach 64%¹**.

Cost of capital approach

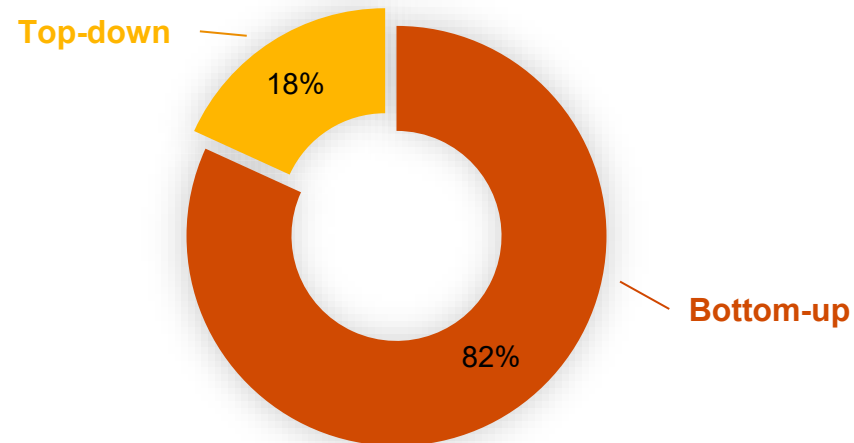
NN Group
Allianz
SCOR
Munich Re

Quantile approach

Generali AXA
Aviva Tryg
Ageas Zurich
Legal & General

Yield Curve methodology

The **Bottom-up approach** is favoured by the panel at **82%¹** of the available responses.



A small proportion of companies would consider using the top down method.

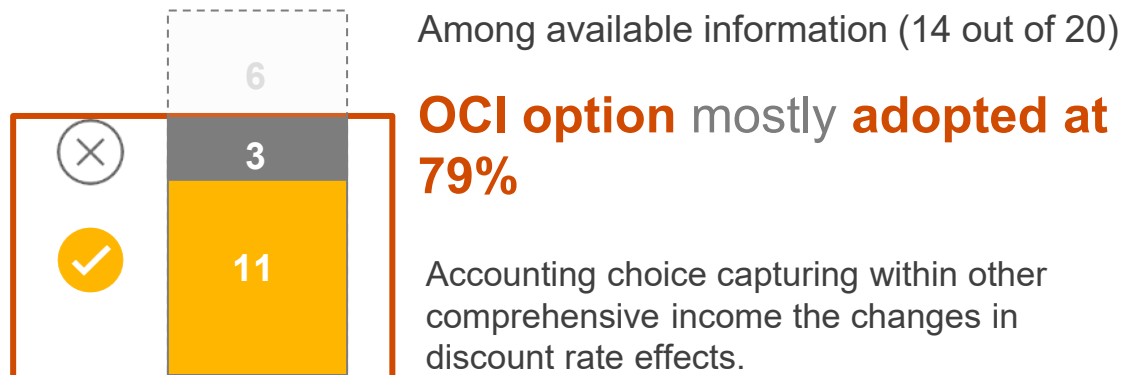
Top down approach
Ageas Legal & General

Note: Aviva uses a bottom-up approach for all liabilities except for annuities, which uses a top down approach



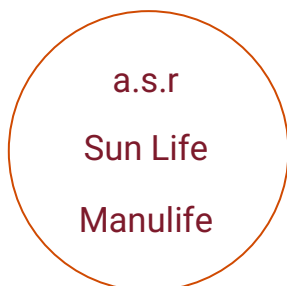
Methodology and strategic decisions choices (3/3)

1. Accounting choice for interest rate liability changes : OCI option

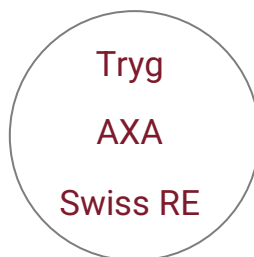


2. Expected additional interest rate volatility

Increase



Stable



Hedging against interest rate volatility – Illustrations of some players' publications

- Hedging strategy to mitigate interest rate volatility unchanged (OCI option not adopted):

Tryg

"IFRS 17 will also impact how finance and hedging decisions are presented (...). Tryg currently holds a number of swaps to hedge against inflation risks in the workers' compensation claims reserve(...). Currently, the change in value are shown as part of the claims, but when reporting under IFRS 17 it will be presented under Investment Return "

a.s.r

"Higher expected volatility in IFRS net result, steering primarily on operating result"

- Considering OCI option to mitigate P&L interest rate volatility:

AXA

"Changes in rates to be recorded in OCI (...) Mitigation of earnings sensitivity to market rates"



KPIs under IFRS 17

Value creation

CSM new business appears to be the **main indicator for value creation**

- **(Equity + CSM net of tax)**

SCOR ⁽¹⁾	Aviva	Legal & General
Ageas ⁽²⁾		
- **IFRS 17 VNB**
(based on CSM New Business)

Hannover Re	Manulife	Zurich
Allianz	Sun Life	

Business growth

(Re)insurance revenue appears to be a key metric to assess **business growth**

- **(Re)insurance revenue**

SCOR	Zurich	Hannover Re
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- **Other KPIs⁽⁴⁾**

SCOR	Zurich	Hannover Re
Manulife	Sun Life	

Profitability

Profitability is mostly measured through **Group RoE** and **P&C Combined ratio**

- **RoE**

Hannover Re	Manulife	Sun Life	Tryg	AXA
Munich Re	Legal & General	Swiss Re	Allianz	
- **P&C Combined ratio**

Hannover Re	Tryg	Zurich	SCOR	AXA	Aviva
Manulife	Swiss Re	Allianz	Munich Re	Ageas	

For L&H business : Margin indicators have been described with no real consensus (EBIT, Operating profit, Net income, Insurance Service result etc.)

Pending additional information

Lloyd's	Generali	NN Group
	a.s.r	HSBC Insurance

This view will be enhanced at mid 2023

1. Economic value "would exceed EUR 9 billion as at 1 January 2022 (unaudited figures)" – extract from Press release as of May 2022
 2. Ageas Comprehensive equity refers to (ShE + Non recognized UG/L – Goodwill and intangibles + CSM after tax)
 3. Axa & Allianz define IFRS 17 NBV which includes CSM new business plus a part of futur profit which is out of IFRS 17 boundaries (see Appendix)
 4. Please refer to appendix



Key considerations on dividend, cash and capital generation

No impact is expected from IFRS 17 on dividends, cash generation and operating capital generation

Industry consensus¹

Zurich	a.s.r	Allianz	Ageas
MAPFRE	AXA	Hannover Re	Aviva
NN Group	Manulife	Legal & General	

1. Panel of players who explicitly displayed no impact expected



Perspectives from analysts

IFRS 17 is an accounting framework which doesn't change underlying business performance. Hence, no change in cash flow, solvency, dividend or buybacks

J.P. Morgan

BERENBERG

HSBC
Global Research

AUTONOMOUS



Multi gaap considerations - Solvency II

Some players tend to converge IFRS 17 and Solvency II where possible. Solvency II is also expected to remain a main valuation anchor and point of comparison to IFRS 17 for analysts.

Illustration of some players' publications:

SCOR

"Cost of capital methodology applied consistent with the Solvency II Risk Margin."

AXA

"Convergence to Solvency II principles where practically feasible."

Discount rate : "Bottom-up approach used to ensure consistency with Solvency II framework"

Hannover Re

Hannover Re " Aim to use the change in accounting as transformational in order to improve alignment with Solvency II"

a.s.r

"Operational efficiency through alignment with Solvency II framework"



Perspectives from analysts

Based on analysts publications and questions raised during meetings held by (re)insurers with the investment community, expectations from the market will be to provide some points of comparison on the following:

- *Solvency II Eligible own funds to IFRS 17 Equity + CSM net of tax*
- *Solvency II Risk Margin to IFRS 17 Risk Adjustment*
- *Solvency II BEL to IFRS 17 PVFCF*

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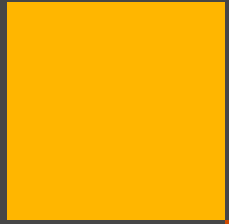


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Appendix

KPIs – Peers' position comparison (1/3)

		Value creation	Profitability	Business growth	Other metrics
SCOR	Group	• Economic Value Growth		• Insurance revenue	
	L&H P&C		• Insurance Service Result • Combine ratio		
Hannover Re	Group	• New Business CSM (incl. Loss component)	• Return on Equity • CSM growth • Excess Return on Capital Allocated • EBIT growth • Combined Ratio	• Reinsurance Revenue Growth	
	L&H		• Excess Return on Capital Allocated • EBIT growth • Combined Ratio		• Solvency II Ratio • Financial Leverage ratio (to be viewed in relation to SHE+CSM net of tax)
	P&C		• Excess Return on Capital Allocated • EBIT growth		
	Group		• Business Operating Profit • Net Income Attributable to Shareholders • Business Operating Profit After Tax ROE	• EPS CAGR*	
Zurich	Farmers*		• Business Operating Profit	• Farmer exchanges Gross Written Premium • Managed Gross Earned Premium margin	• Swiss Solvency Test • Cash Remittances • Financial Leverage (to be viewed in relation to SHE+CSM net of tax + RA net of tax)
	L&H	• New Business CSM	• Business Operating Profit • Present Value of New Business Premium	• Insurance Revenue	
	P&C		• Combined Ratio • Business Operating Profit	• Gross Written Premium • Insurance Revenue	
	Group		• Return on Equity • Net income • Normalised Combined Ratio (assuming an average large cat nat loss burden and excluding prior-year reserve development)		
Swiss Re	L&H				
	P&C				
Manulife	L&H only	• New Business CSM	• Core RoE ((Core Earnings - Preferred Dividends - Other Equity Distributions)/(Average Common Shareholders Equity)) • Expense Efficiency Ratio (Core General Expenses/(Core General Expenses + Pre-tax Core Earnings))	• New Business CSM growth • CSM Balance growth • Core Earnings from highest potential businesses • Core Earnings from Asia region (Insurance + WAM)	LICAT ratio

*Compound organic earnings per share growth rate, before capital deployment

KPIs – Peers’ position comparison (2/3)

		Value creation	Profitability	Business growth	Other metrics
Sun Life	L&H Only	• New Business CSM	• Return on Equity • Net Income • Dividend Payout Ratio	• CSM balance growth	• LICAT ratio
	Group		• RoE		Financial Leverage ratio (to be viewed in relation to SHE+CSM net of tax)
Allianz	L&H	• Value of new business : CSM@inception + Investment contracts + PAA business			
	P&C		• Combined Ratio		
NN Group	Group	• Definition of operating result which is used as an alternative performance measure, will be amended to reflect impact of IFRS 17			
	L&H P&C				
AXA	Group	• New Business Value (adjusted to include New Business CSM ca. 90% of NBV) • New Business Value Margin = NBV /Present Value of Expect Premiums	• RoE		
	L&H P&C		• Combined Ratio		
Legal & General	L&H Only	• IFRS Equity + CSM	• RoE		



KPIs – Peers’ position comparison (3/3)

		Value creation	Profitability	Business growth	Other metrics
Aviva	Group	<ul style="list-style-type: none">Adjusted ShE : IFRS 17 Equity + CSM net of taxAdded value: IFRS 17 operating result + Change in CSMStock of future IFRS profit: CSM + RA			
	General Business		<ul style="list-style-type: none">Combined Ratio		
Ageas	Group	<ul style="list-style-type: none">Comprehensive equity (ShE + Non recognized UG/L – Goodwill and intangibles + CSM after tax)	<ul style="list-style-type: none">Net operating result		<ul style="list-style-type: none">Operating capital generation
	L&H		<ul style="list-style-type: none">Life Net operating resultCSM growthCSM releaseLife Margin		
	P&C		<ul style="list-style-type: none">Non-Life net operating resultCombined ratio (Net/gross)		
	Group		<ul style="list-style-type: none">RoEInsurance Revenue (gross)Net Result		
Munich Re	L&H		<ul style="list-style-type: none">Technical result		
	P&C		<ul style="list-style-type: none">Combined ratio (Net ISR/ Net IR)		

Thank you

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