

IFRS 17 FY24

Analysis for UK life insurers

April 2025



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01

Executive summary



Executive summary

Second year of IFRS 17 reporting

- In 2024, insurers experienced a period of welcome accounting stability. This has allowed greater focus on performance and execution, while continuing to embed with IFRS 17.
- Results announcements were earlier in Q1 2025 than last year, with no significant changes in approach for UK life insurers. Adjusted operating profit (AOP) remains the primary IFRS-related performance metric and will be used in remuneration by all leading listed life insurers from 2025.

This publication provides analysis of the disclosures made by 7 of the largest UK life insurers, building on our FY23 [publication](#).

Post-implementation review

- The IASB has yet to confirm the date of their Post-Implementation Review (PIR) of IFRS 17. However, based on past experience, it is unlikely to occur before 2027 and, given the fundamental changes IFRS 17 brought to insurance accounting, it could conceivably be later.
- In this publication, we explore the context of a PIR and examine potential areas that could be enhanced for UK life insurers. Experience of other PIRs suggests that significant changes to IFRS 17 are unlikely.

It is too early to know which, if any, areas of IFRS 17 could be evaluated in a PIR. Given the substantial spend in implementing IFRS, UK life insurers may have limited appetite in investing further in changes to IFRS 17.

What next for finance?

- For many insurers, the initial IFRS 17 reporting challenges have been addressed, although some tactical workarounds remain.
- Finance teams are now focusing on becoming strategic business partners, aiming to drive value, enable commercial outcomes, and deliver real-time insights. This transformation is being led by insurers' ambitions rather than regulatory deadlines. Success will depend on how effectively finance teams can leverage data, technology and AI, and harness the experience and knowledge of their people.

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The second year of IFRS 17 reporting was notably smoother for most insurers, with the focus rightly on performance rather than accounting. Looking ahead, finance teams are focusing on how they can effectively support business performance by leveraging data and technology, and harnessing the experience and knowledge of their people. Any post-implementation review of IFRS 17 is still some way off and experience of other reviews suggests that significant changes to IFRS 17 are unlikely.

Anthony Coughlan
PwC IFRS 17 UK Reporting Lead

02

Analysis of IFRS disclosures

```
def _mirror_operation(self, operation):
    mirror_mod.use_x = False
    mirror_mod.use_y = True
    mirror_mod.use_z = False
elif operation == "MIRROR_Z":
    mirror_mod.use_x = False
    mirror_mod.use_y = False
    mirror_mod.use_z = True

#selection at the end -add back the deselected mirror modifier object
mirror_ob.select= 1
modifier_ob.select=1
bpy.context.scene.objects.active = modifier_ob
print("Selected" + str(modifier_ob)) # modifier ob is the active ob
#mirror_ob.select = 0
done = bpy.context.selected_objects[0]
done.data.objects[mirror_name].select = 1
print("Please select exactly two objects, the last one gets the mirror")
```

Key observations

The full year 2024 marked the second year of formal IFRS 17 reporting. Results announcements were made earlier in the first quarter of 2025 than last year and as anticipated, there were no significant changes in approach. Only one insurer in our sample made an IFRS 17-related restatement. Adjusted operating profit remains the primary IFRS-related performance metric, with significant non-operating losses reported by some insurers.

- Over 2024, insurers have welcomed a period of accounting stability, allowing them to focus on performance and strategic execution while further embedding IFRS 17 into business as usual and financial planning processes. Reporting dates returned to earlier in the first quarter of 2025 and, with only one exception, there were no IFRS 17-related restatements. For many insurers, IFRS 17 processes and controls remain more manual and less formalised compared to their long-term targets, and a focus remains on measured and cost-effective finance transformation initiatives.
- Significant IFRS losses, or non-operating losses, were recognised by some insurers at FY24. The extent of these losses varied and reflected a mix of structural mismatches caused by hedging on a Solvency II basis, whether the assumed long-term expected investment return was achieved during the year (for operating items), and significant IFRS 17-related mismatches for some insurers.

- There are no significant changes to the definition of adjusted operating profit (AOP) compared to last year. Two distinct approaches remain in recognising the impact of the IFRS 17 contractual service margin (CSM) in AOP. For insurers recognising the CSM in AOP, associated mismatches continue to be presented in non-operating profit, for example the counterintuitive IFRS loss arising from longevity assumption releases, where a release in the best estimate liabilities is more than offset by an increase in the CSM due to the use of locked-in rates.
- There are some revisions to 2025 remuneration metrics, reflecting the further embedding of IFRS 17 or strategic changes into the business. All FTSE-listed life insurers within our sample now include at least one IFRS-related performance measure based on AOP.
- The approaches adopted and judgements made during the transition to IFRS 17 continue to reduce comparability across UK life insurers. This includes the run-off of the transition CSM determined on a fair value basis and other choices made, such as holding an amortised cost asset portfolio to back the annuity CSM.
- Compared to 2023, there are no significant changes in the disclosed future CSM release patterns for annuities or the approach to releasing the CSM for deferred annuities. This includes the key judgement in weighting of service between the in-payment and in-deferment periods.
- The implied IFRS 17 illiquidity premium for annuity writers is consistently comparable to or larger than the Solvency II matching adjustment. Our market experience indicates that the aggregate Solvency II voluntary additions to the fundamental spread, introduced in 2024, were typically small single-digit basis points. Consequently, they had a limited impact on the Solvency II matching adjustment and, by extension, the IFRS 17 illiquidity premium (to the extent relevant and applicable).
- The selection of the reference portfolio remains a key judgement in determining the discount rate for marking the point-of-sale CSM for bulk annuities, which is the IFRS 17 measure of profitability. This judgement also influences how the impact of future asset deployment on the annuity liabilities is accounted for.
- The presentation of IFRS 17 disclosures for each insurer has remained consistent since 2023. We continue to observe varying levels of granularity, such as product and reinsurance splits, in the analysis of changes in liabilities. This variation reflects how insurers manage their business and assess materiality. Additionally, there are still limited onerous contracts.

We explore these observations on the subsequent pages.

Adjusted operating profit

All UK life insurers present Adjusted Operating Profit (AOP) as a key performance measure. At FY24, we observed:

- The **definition of AOP used by each insurer remains consistent with FY23**.
- **Two distinct approaches remain in recognising the IFRS 17 CSM** in AOP (i.e. inclusion vs exclusion). When the CSM impact is excluded, AOP broadly aligns with pre-IFRS 17 measures, notably capturing significant new business profits.
- The assumed rate of long-term investment performance used to determine the expected return remains a **key judgement** in AOP.
- **Significant IFRS 17-related mismatches**, linked to the CSM, **continue** to be reported in non-operating profit by some insurers. For example, M&G reported a mismatch loss of c.£240m relating to non-profit business in their with-profit fund.
- For those insurers recognising the impact of CSM in the AOP, the measure **could be viewed as more predictable** and less dependent on actions taken by management during the year, such as new business volumes and demographic assumption changes.

The table below sets out the main components of AOP and specific IFRS 17-related mismatches that are excluded:

	Aviva	Just	L&G	Phoenix	PIC	M&G	Rothsay
Components of AOP							
CSM release	✓	x	✓	✓	x	✓	x
New business profit	x	✓	x	x	✓	x	✓
Risk adjustment release	✓	✓	✓	✓	✓	✓	✓
In-period experience variances (non-economic)	✓	x ²	✓	✓	✓	✓	✓
Demographic assumption changes (future cashflows)	Some ¹	x ²	x	x	✓	x	✓
Expected return ³	✓	✓	✓	✓	✓	✓	✓
Asset optimisation ⁴	✓	x	✓	✓	x	✓	Not explicit
IFRS 17 mismatches excluded from AOP							
Annuity CSM lock-in ¹	x ¹	N/A	✓	✓	N/A	✓	N/A
Non-profit business in with-profit funds ⁵	Not explicit ⁵	N/A	N/A	✓	N/A	✓	N/A
Reinsurance-related mismatches ⁶	Not explicit	Not explicit	✓	Not explicit	x	✓	Not explicit
Other exclusions	-	-	-	Adj. for internal pension buy-in	-	Adj. for internal pension buy-in and expense look-through ⁷	-

Source: PwC analysis and interpretation of FY24 and related external disclosures.

Notes:

1. The annuity CSM lock-in mismatch arises when changes in estimates (e.g. longevity assumptions) affect the CSM which is calculated on interest rates locked-in at inception, whilst the impact on the best estimate liability reflects current interest rates. This difference gives rise to an IFRS profit or loss. The mismatch applies to all products under the IFRS 17 General Model, but is most noticeable for annuity contracts. This impact is included in Aviva's AOP.
2. Just Group headline non-GAAP profit measure is 'Underlying Operating Profit'. This measure excludes the impact of non-economic experience variances and demographic assumption changes.
3. The expected return applies to all product lines and reflects assumed long-term investment assumptions on assets backing liabilities and surplus assets. For with-profit contracts, M&G and Aviva allow for the impact of expected returns on the CSM which is then partially released within the period to AOP. It is not clear whether this is included by Phoenix.
4. This component captures back-book asset optimisation actions for annuities. For PIC 'optimising the in-force asset portfolio' and Just 'asset trading' is part of investment-related variances (a component of non-operating profit).

5. The mismatch relating to non-profit business in with-profit funds arises in IFRS profit or loss as these contracts are accounted for under IFRS 17, but they are also underlying items for current and/or future with-profit contracts, where the interaction is accounted for at fair value.

Aviva's AOP definition '... includes movements in the liabilities to with-profit policyholders that offset the operating result of non-profit contracts written in the with-profit funds.' It is not explicit whether the mismatch arising from non-profit business in with-profit funds is within AOP or not.

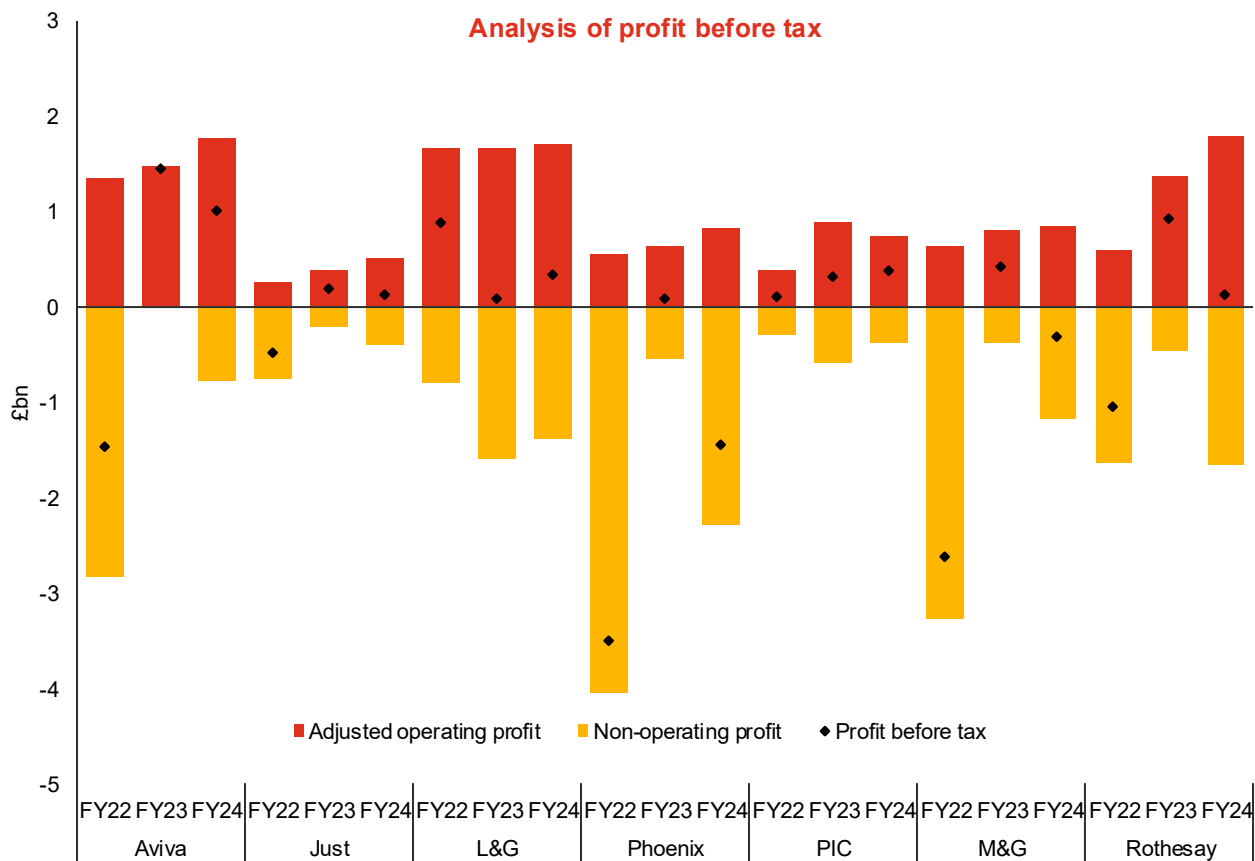
6. PIC: A significant loss component was recognised on FY24 new bulk annuities (£76m) for which expected longevity reinsurance has yet to be transacted (due to the timing of new business in 2024). The PIC IFRS new business profit metric allows for the expected future reinsurance, while the timing variance of not yet transacting the reinsurance is a (negative) experience variance within AOP.

L&G: Any timing differences between the recognition of reinsurance and underlying contracts is excluded from AOP.

M&G: New for FY24, mismatches relating to 'Value Share' bulk annuities (underlying and associated reinsurance) are excluded from AOP. The mismatches noted relate to the definition of insurance service and the discount rate.

7. This is to remove the IFRS-required expense look-through for internal asset management arrangements.

Adjusted operating versus non-operating profit



Source: PwC analysis and interpretation of FY24 and related external disclosures (including prior years).

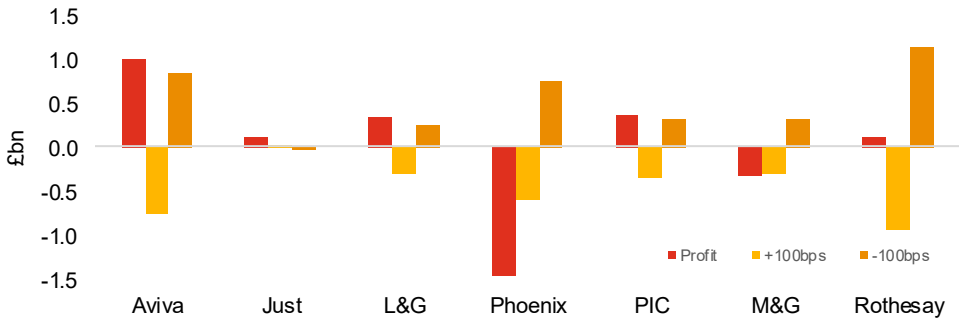
Notes: The analysis relates to the total business written by each insurer and so includes any general insurance or asset management business where this exists. The main operating profit measure used by each insurer has been used (e.g. underlying operating profit for Just) and non-operating profit has been taken as the difference to profit before tax. Profit before tax is the profit before tax attributable to equity holders and hence after policyholder tax.

Since the implementation of IFRS 17, including the FY22 comparative period, nearly all insurers in our sample have reported year-on-year growth in adjusted operating profit (AOP). In contrast, profit before tax has been more volatile, reflecting non-operating losses over the past three years.

Excluding exceptional items and acquisition-related amortisation, the main non-operating items are investment variance and IFRS 17 mismatches excluded from AOP. Investment variance reflects whether the assumed long-term expected investment return was achieved during the year and includes structural mismatches from Solvency II-based hedging. The latter is particularly notable for Phoenix, which at FY24 stated: “Movements in yields and equity markets are hedged to protect our Solvency II surplus from volatility, but our IFRS balance sheet is, in effect, ‘over-hedged’ as it does not recognise the additional Solvency II balance sheet items such as future profits on investment contracts measured under IFRS 9 and the Solvency Capital Requirements.”

The impact of changes in interest rates on the IFRS result can be observed from disclosed sensitivities as shown in the chart presented below. Some insurers seek to mitigate the sensitivity, for example L&G and Just each hold a portfolio of assets at amortised cost to partially back the annuity CSM.

Profit before tax interest rate sensitivity at FY24



Source: PwC analysis and interpretation of FY24 and related external disclosures. Note, to aid comparison the disclosed sensitivities have been scaled where these are calibrated differently to +/-100bps and where a pre-tax profit impact only is published. For L&G, Phoenix and M&G the pre-tax impact was estimated using the tax rate implied from the pre- and post-tax profit figures. Note that pre-tax profit is the profit before tax attributable to equity holders and hence after policyholder tax.

Financial measures used for remuneration

At FY23, almost all FTSE-listed life insurers made changes to existing measures for remuneration to reflect the impact of IFRS 17. At FY24, we observed refinements by most insurers, reflecting either the further embedding of IFRS 17 or strategic changes to the business. The table shows the various financial performance measures that are used by the main FTSE-listed life insurers to determine the remuneration for Directors in 2024, with changes for 2025 measures highlighted. In summary:

- All FTSE-listed life insurers within our sample now have at least one IFRS-related measure following the change by Phoenix for 2025. At FY24, Phoenix introduced AOP in response *'to the current shareholder focus on IFRS 17 profitability measures'*. Additionally, another measure was revised to meet their objective to increase cash generation and enable a reduction in leverage.
- At FY24, L&G refocused to IFRS new business CSM from net movements in CSM to *'better reflect the contribution that management make during the year'*, while M&G included their newly announced AOP growth and cumulative operating capital generation targets into their long-term incentive plan.

Insurer	Direct IFRS-related			Other measures ¹					
	Adjusted operating Profit (AOP)	Net movement in CSM	Earnings per share (EPS)	Return on equity (RoE) (various forms)	Cash generation/ remittances (various forms)	Solvency II operating surplus/capital generation	New business value (various forms)	Cost saving	Net flows (various forms)
Aviva	✓ (ST)	x	x	✓ (LT: Solvency II-based RoE)	✓ (ST and cumulative for LT)	✓ (ST: Solvency II own funds generation)	x	✓ (ST: efficiency measure)	x
Just	✓ (ST: underlying operating profit)	x	x	✓ (LT: IFRS-based RoE)	✓ (LT: from 2025)	✓ (LT: underlying OCG for 2024)	✓ (ST: IFRS NB profit and Solvency II NB strain)	x	x
L&G	✓ (ST)	✓ (ST: replaced by New business CSM in 2025)	✓ (LT: EPS growth)	✓ (ST: IFRS-based RoE, replaced by core operating EPS in 2025)	x	✓ (ST)	✓ (ST: value add)	x	✓ (ST: flows and revenue for asset manager)
Phoenix	✓ (ST and LT cumulative for 2025)	x	x	✓ (LT: Return on capital for 2024 only)	✓ (ST and cumulative for LT)	✓ (ST: operating own funds for 2025, LT: surplus for 2025)	✓ (ST: only 2024)	✓ (ST)	✓ (ST & LT: only 2024)
M&G	✓ (ST: AOP + Operating change in CSM and LT: AOP growth for 2025)		x	x	x	✓ (ST: OCG exc. NB strain, LT: Cumulative OCG)	x	x	✓ (ST: only 2025)

Source: PwC analysis and interpretation of FY24 and related external disclosures.

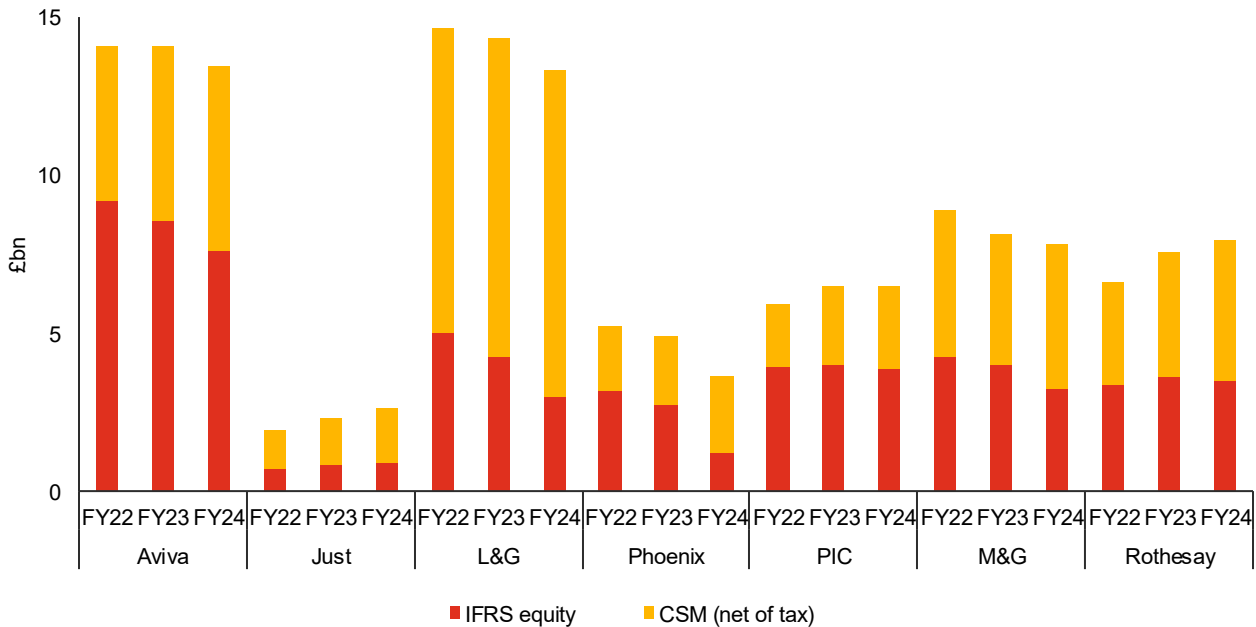
Key: ST = short/annual performance metric, LT = long term incentive plans, OCG = Organic (Just) or Operating (M&G) Capital Generation, and changes for 2025 highlighted.

¹ Although not a financial measure, all insurers in the sample also include a performance measure around relative total or total shareholder return. This is not presented in the table above.

Evolution of adjusted shareholder equity

Adjusted shareholder equity is generally defined as the IFRS shareholder equity plus the CSM, net of tax and reinsurance. This metric may provide greater comparability across insurers by removing differences in the equity positions that arose during the transition to IFRS 17, such as specific transition approaches or calibrations selected. Some insurers also make other adjustments, such as removing the policyholder CSM for non-profit business in with-profit funds. In addition, some insurers include the adjusted shareholder equity in the denominator of their IFRS-related leverage ratio, with Phoenix in its 'Fitch leverage ratio' also including a measure of the policyholders' share of the with-profit estate.

Adjusted shareholder equity



Source: PwC analysis and interpretation of FY24 and related external disclosures (including prior years).

Notes: The chart presents a PwC-determined adjusted shareholder equity. To produce this: (a) Aviva, L&G, Phoenix, M&G IFRS equity excludes preference shares, Tier 1 notes and non-controlling interests (where applicable); (b) PIC & Rothesay IFRS 17 equity excludes Restricted Tier 1 debt; and (c) M&G CSM net of tax has been approximated by applying the corporate tax rate each period.

Where the adjusted shareholder equity has grown since FY22, this has typically been due to an increase in the CSM from new business volumes. For others, share buy-backs and dividend have reduced equity.

The FY24 loss at Phoenix resulted in a notable reduction in both adjusted and actual shareholder equity. Phoenix noted at FY24: *'The Group accepts the hedge-related volatility that impacts IFRS shareholders' equity, which is a known consequence of our Solvency II hedging strategy that is designed to protect our cash, capital and dividend. In this overall context and consistent with previous guidance, the Board considers that the Group's consolidated IFRS shareholders' equity is not a constraint to the payment of our dividends.'*

The life subsidiaries at Phoenix transitioned from IFRS to UK GAAP at FY23, so IFRS-related mismatches are not a constraint on distributable earnings from these operations. Except for M&G, the other UK life insurers continue to adopt IFRS for subsidiary reporting.

For a comprehensive understanding of the future of UK GAAP for life insurers, please refer to our [September 2024 publication](#).



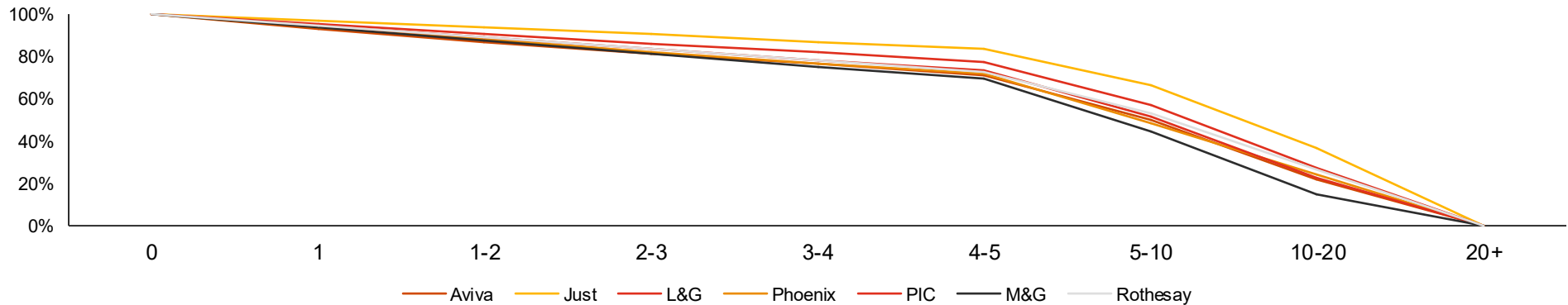
CSM emergence for annuities

During IFRS 17 implementation, a key area of judgement was determining the pattern of CSM emergence (or amortisation) into profit for annuity products. This was especially important due to the size of the CSM (see Appendix) and the long duration of the contracts compared with other product types. The chart below presents the cumulative future release of the annuity CSM, net of reinsurance, as required to be disclosed under IFRS 17. Various factors drive the relative patterns, including the age of business, mix of immediate and deferred annuities, approach (notably weighting of services for deferred annuities and discount rate for coverage units), extent and type of reinsurance, and the approach to disclosure (e.g. aggregation of business lines, treatment of interest accretion). The FY24 disclosures showed a consistent emergence of future CSM compared to FY23, with no substantive changes in the approach used by insurers. For a detailed analysis, refer to the Appendix.

26%

of the net CSM is expected to be released over the next 5 years across most insurers.

Cumulative future net of reinsurance CSM emergence at FY24 (each year)



Source: PwC analysis and interpretation of FY24 and related external disclosures.

Excluding Just and M&G, the net of reinsurance patterns appear similar for the other insurers. However, by year 5, the difference between the largest and smallest CSM releases for these other insurers is c.6% which can be significant given size of the CSM balances.

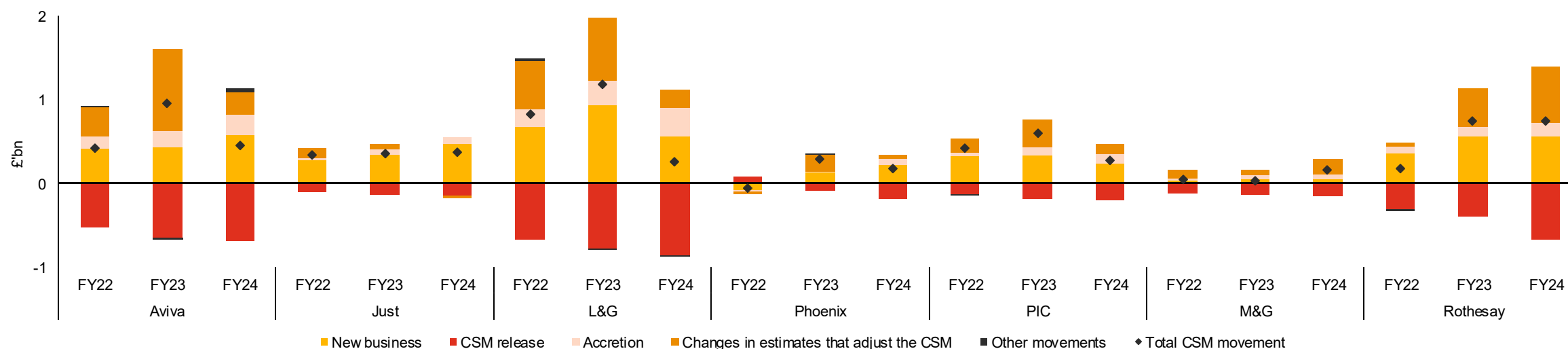
Notes:

1. The analysis for Aviva reflects their 'Life Risk' segment which includes protection contracts with annuities (as not split out separately). For M&G, the 'Annuity and other long-term business' disclosure group is presented; it is not clear what products other than annuities are included. The emergence patterns for Aviva and M&G may therefore be distorted by non-annuity business.
2. Rothesay grouped Years 0-5. For the chart it is assumed that the CSM runs off in a straight line over this period for this insurer.
3. Consistent with FY23, L&G included an alternative net of reinsurance CSM graphical emergence into future operating profit in their Analyst Pack, split between Institutional Retirement and Retail, where 'the total amount presented exceeds the carrying value of the CSM as it incorporates the future accretion of interest.' This is not presented in the chart.
4. PIC and Just made changes to their disclosure of future CSM emergence at FY24 which has aided comparability.

Analysis of changes in annuity CSM

Continuing our focus on annuities, the chart below presents the movement in annuity CSM, net of reinsurance, from FY22 to FY24, broken down into new business, CSM release (amortisation), interest accretion, changes in estimates that adjust the CSM (primarily from longevity assumption changes), and other movements. Insurers typically view the CSM as a stock of future value and aim to demonstrate its growth over time. All insurers in the sample reported an increase in the CSM over the period, primarily driven by new business volumes and the deferral of longevity assumption releases into the CSM. The relative impact of longevity assumption changes depends on the level of reinsurance cover in place.

Analysis of change in annuity CSM



Source: PwC analysis and interpretation of FY24 and related external disclosures (including prior years).

The analysis is based on the IFRS 17-required disclosure reconciliation tables with the following assumptions or points to note:

1. Aviva reflects the 'Life Risk' segment which includes protection with annuities (as not split out separately). For M&G, the 'Annuity and other long-term business' disclosure group is presented; it is not clear what products other than annuities are included, and it is assumed that all reinsurance relates to this disclosure group. For Phoenix, the 'Retirement Solutions' segment is presented, and reinsurance movements are weighted in line with the gross CSM movements (across all segments).

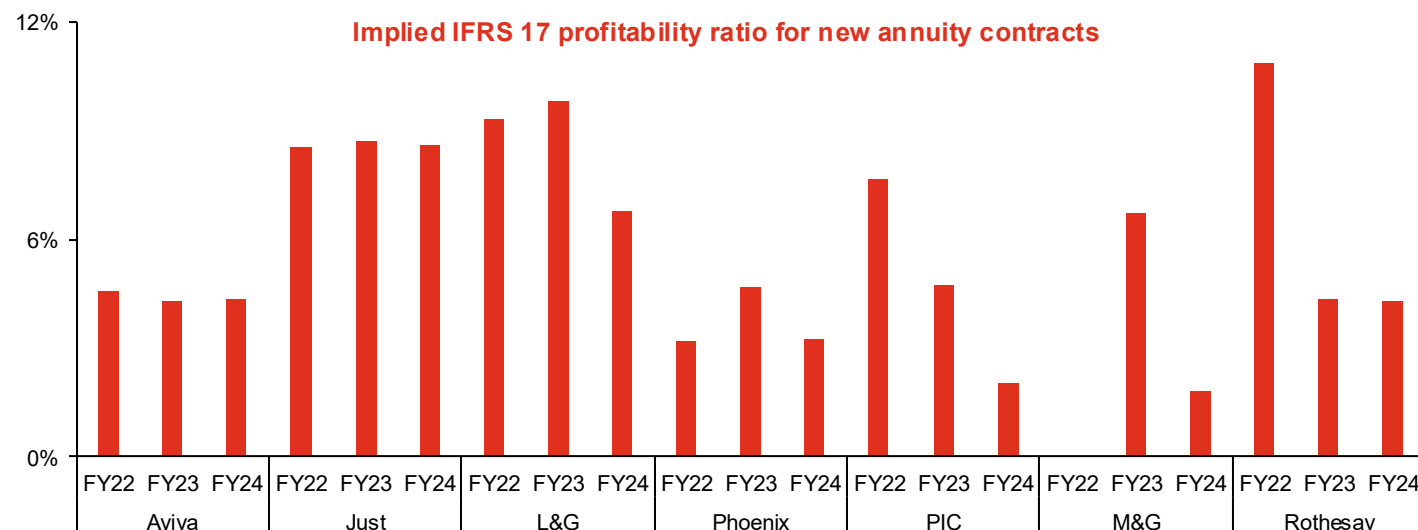
2. Interest accretion is taken to be the net finance income/expenses component of the reconciliation tables.

3. The 'Other movements in CSM' include exchange rate difference for Aviva, L&G and Just, and the effect of portfolio transfers, acquisitions and disposals for Aviva.

Collating the data for this chart was complex due to differences in how insurers disclosed this IFRS 17-required information, particularly in the level of granularity and signage conventions.

Annuity new business profitability

Significant volumes of new bulk and retail annuity business continue to be written in the UK. The IFRS 17 CSM offers a new perspective on relative profitability of new business. The chart below presents the implied IFRS 17 profitability ratio for new annuity business from FY22 to FY24. This ratio is calculated as the net of reinsurance new annuity business CSM, divided by the gross premium net of funded reinsurance. It includes both bulk and retail annuity new business, with certain assumptions made for some insurers due to the limited information disclosed.



Drawing definitive conclusions from the implied IFRS 17 profitability ratio appears challenging for various reasons, such as:

- For bulk annuities, insurers are writing a wide range of scheme sizes and total annual premium volumes. For example, Rothesay, PIC and L&G typically transact the largest schemes, while Just traditionally has transacted higher volumes of smaller schemes.
- There is a mix of bulk and retail annuities sold by some providers, notably L&G, Aviva and more recently Phoenix.
- Accounting choices will affect the new business CSM. For example, the choice of reference portfolio for setting the inception discount rate affects how much of future asset deployment is captured in the new business CSM versus recognised directly as profit each year.
- The extent of market competition and the economic environment each year will impact. For example, in response to economic conditions, some insurers made increased use of gilt-based investment strategies in 2024.

As more years of experience become available, it will be interesting to observe if any clear trends emerge.

Source: PwC analysis and interpretation of FY24 and related external disclosures (including prior years).

Notes

1. PIC (FY23 and FY24), Aviva, Phoenix and M&G (all years): Gross premium is used as amount of funded reinsurance is not disclosed. L&G and Just disclose funded reinsurance premiums, while Rothesay explicitly states that they do not use funded reinsurance.
2. For Aviva, Just, L&G, Phoenix and M&G, the analysis is across bulk and retail annuity new business, and for L&G includes overseas bulk annuities. In addition, for Phoenix, certain assumptions have been made on the volume of retail and protection business each year.
3. For PIC at FY24, the new business CSM is reduced by the new business loss component. Note, based on entering future reinsurance the profitability ratio would increase to c.4%.
4. M&G re-entered the bulk annuity market in 2023. Any limited retail annuities sold in FY22 have been ignored.
5. There are significant transactions in certain periods (e.g. Rothesay FY24: NatWest bulk annuity and Scottish Widows 100% reinsurance of bulk annuity portfolio, PIC FY23: RSA Group bulk annuity and L&G FY23: Boots bulk annuity).

Discount rates

The tables set out the actual or implied (GBP) illiquidity premium used by UK life insurers to discount insurance contract liabilities at FY24. In summary, we observe:

- There is notable variability in the implied illiquidity premium used in top-down discount rates for annuity providers. This reflects the diversity in asset portfolios, potentially different views on credit default risk and perhaps differences in the approach to selecting the reference portfolio of assets to determine the discount rate.
- The selection of the reference portfolio to determine the top-down discount rate for annuities is an area of judgement. Most UK annuity providers base the reference portfolio on the actual assets held, but with adjustments. We explore the approaches further in the Appendix to this report, including how the reference portfolio is used to determine the point-of-sale CSM for new business and how a period of asset deployment is allowed for.
- The IFRS annuity illiquidity premium is consistently comparable to or larger than the Solvency II matching adjustment (MA), which may reflect some conservatism in the regulatory view.
- While there is limited data on the illiquidity premium applied when insurers use the bottom-up discount rate for non-annuity products, we observe that it is considerably lower than for annuity business, as expected.

Annuities: FY24 IFRS illiquidity premium (LQP) and Solvency II matching adjustment (MA)

Insurer	IFRS LQP	Solvency II MA ³
Aviva ¹	c. 170-180 bps	120 bps
Just ¹	c. 210-220 bps	177 bps ⁴
L&G ¹	c. 160 bps	127 bps
Phoenix	169 bps	Not explicit
PIC	c. 170 bps	165 bps
M&G ²	149 bps	142 bps
Rothsay	137 bps	c. 108bps

Other products: FY24 estimated illiquidity premium

Insurer	IFRS LQP
Aviva ⁵	With-profits: c. 30-40 bps Protection: c. 20-30 bps
L&G ⁵	Protection: c. 80 bps
Phoenix	With-profits: 20 bps (liquid) / 104-169 bps (illiquid)
M&G	With-profits: 39 bps
LBG (SW) ⁶	Protection & other: 24 bps

What was the impact of the Solvency II voluntary fundamental spread add-on?

- The PRA Policy Statement 10/24 detailed reforms to the Solvency II regime for the matching adjustment (MA), including the MA attestation process and voluntary fundamental spread (FS) add-on.
- There was limited, if any, disclosure in Report & Accounts and SFCR on the quantum of the voluntary FS add-on and its financial impact. Only Aviva, Just and M&G made references in their respective Business Reviews to a financial impact. Aviva noted a c.4% increase in Group shareholder Solvency II coverage ratio across all aspects of the MA reforms, not just any FS add-on. Just and M&G noted changes in Solvency II surplus of c.£(42)m and c.£16m respectively, similarly relating to all aspects of the MA reforms.
- Our market experience suggests that the aggregate voluntary FS add-ons applied by insurers were typically small single-digit basis points.

Source: PwC analysis and interpretation of FY24 and related external disclosures (including the SFCR).

Notes:

1. Implied by comparing annuity discount rate curves to risk-free (Aviva & Just) or from graph of discount rates at year 20 (L&G). For Just, Just Retirement Limited (JRL) is used.
2. For M&G, the shareholder annuity LQP and MA are presented.
3. For L&G and PIC the Solvency II MA is disclosed in their Analyst Pack and Business Review respectively, while for the others, the MA is in the SFCR (excluding Phoenix). For Aviva, the MA for 2024 new business is disclosed in their Group Report & Account as 122bps.
4. The Just SFCR notes the voluntary fundamental spread add-on: '2.6bps and 0.3bps respectively (unaudited) for JRL and PLACL as at YE24.'
5. Implied by comparing the discount rate curves to risk-free (Aviva) or from the graph of discount rates (L&G).
6. LBG (SW): Lloyds Banking Group (Scottish Widows) and 'other' is noted to be whole of life contracts.

Continuing impact from the transition to IFRS 17

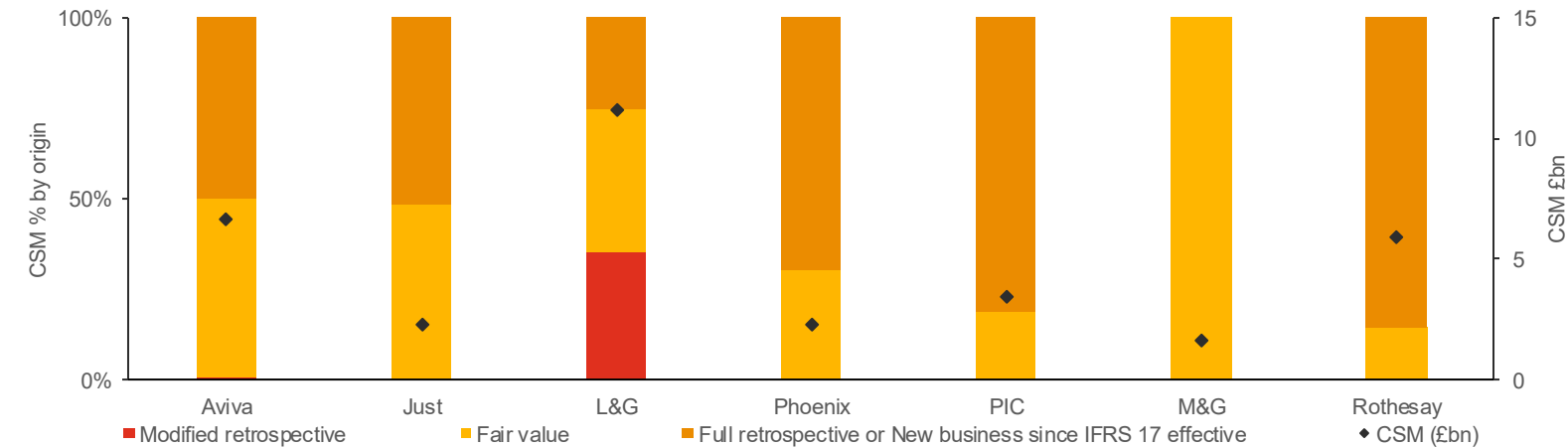
As we noted in our FY23 publication on IFRS 17 disclosures, UK life insurers applied a range of permitted approaches when determining the opening (transition) CSM, resulting in differing outcomes. This was particularly evident for annuities and with-profit contracts. For annuities, the establishment of the CSM led to varying reductions in shareholder equity. In contrast, with-profit contracts often saw increases, reflecting for the first time, the recognition of the shareholders' share of surplus assets within with-profit funds.

Focusing on annuities, the setting of the opening CSM influences the emergence of future profits, as illustrated in the adjacent charts:

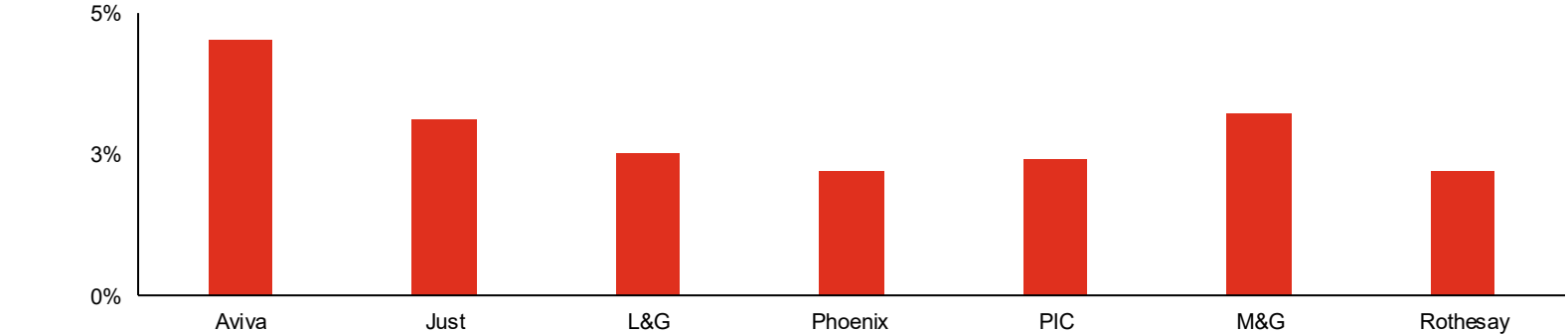
- **Around 40% (or £13bn) of the annuity CSM (net of reinsurance) at FY24 relates to contracts transitioned using the fair value approach.** This method involved significant judgement, with differing assumptions potentially leading to variation in opening CSM levels and future profit profiles across peers with similar annuity portfolios. Over time, the third category of CSM, covering fully retrospective transition and new business post-IFRS 17, will grow to 100%, enhancing comparability across insurers, all else being equal.
- **There is variation in the implied locked-in rate for annuities transitioned under the fair value approach** affecting both future interest accretion and mismatches from longevity assumption changes. This suggests insurers have adopted different approaches either setting locked-in rates retrospectively, leading to higher rates, or using rates at the date of transition.

Other accounting choices across product lines also continue to affect comparability. A detailed comparison is provided in the Appendix.

Annuity FY24 net of reinsurance CSM by origin¹



Estimated 2024 locked-in rates for annuities transitioned under the fair value approach²



Source: PwC analysis and interpretation of FY24 and related external disclosures.

Notes:

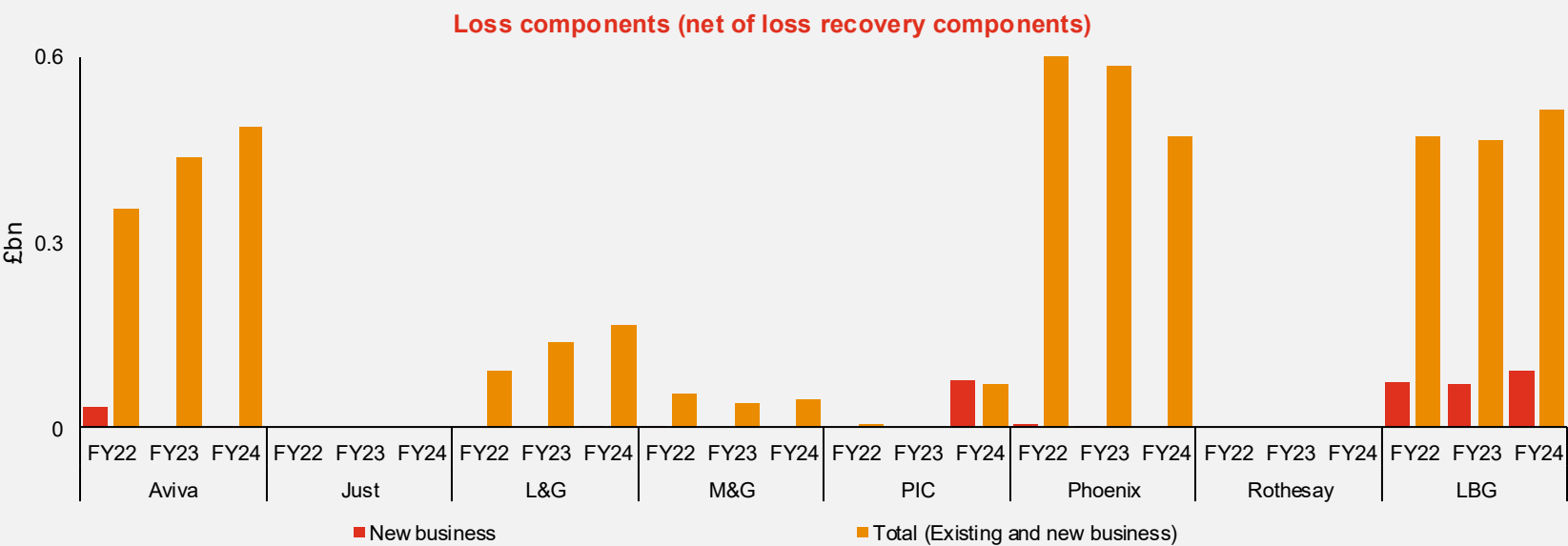
1. Aviva: 'Life Risk' segment which includes protection with annuities (as not split separately). M&G: Gross CSM in the third category is fully offset by reinsurance held.
2. This is calculated for all insurers as: (Impact on the CSM from insurance finance income/expense over 2024)/(Opening 2024 CSM).
M&G & Just: Explicitly disclosed at FY23 the locked-in rates, set at 1 January 2022 (transition date) for their annuities transitioning under the fair value approach.

Extent of onerous contracts

A key aspect of IFRS 17 is identifying onerous contracts at inception and tracking them separately over time.

The chart shows the total and new business loss components at each IFRS 17 reporting date. The figures are shown for life business only and are loss components net of loss recovery components.

Source: PwC analysis and interpretation of FY24 and related external disclosures (including prior years).



Key observations

In 2024, UK life insurers wrote minimal onerous business, suggesting that IFRS outcomes may influence pricing to some extent. The total loss components recognised at FY24 are also small relative to the CSM, with some insurers reporting none. We provide a brief commentary on the loss components that are present.

Aviva

The loss component is in the 'Life Risk' disclosure group and is likely to relate to existing protection contracts rather than annuities.

Phoenix

The largest loss component is for with-profits contracts and originally arose due to changes in 2022, the IFRS 17 comparative year.

LBG (Scottish Widows)

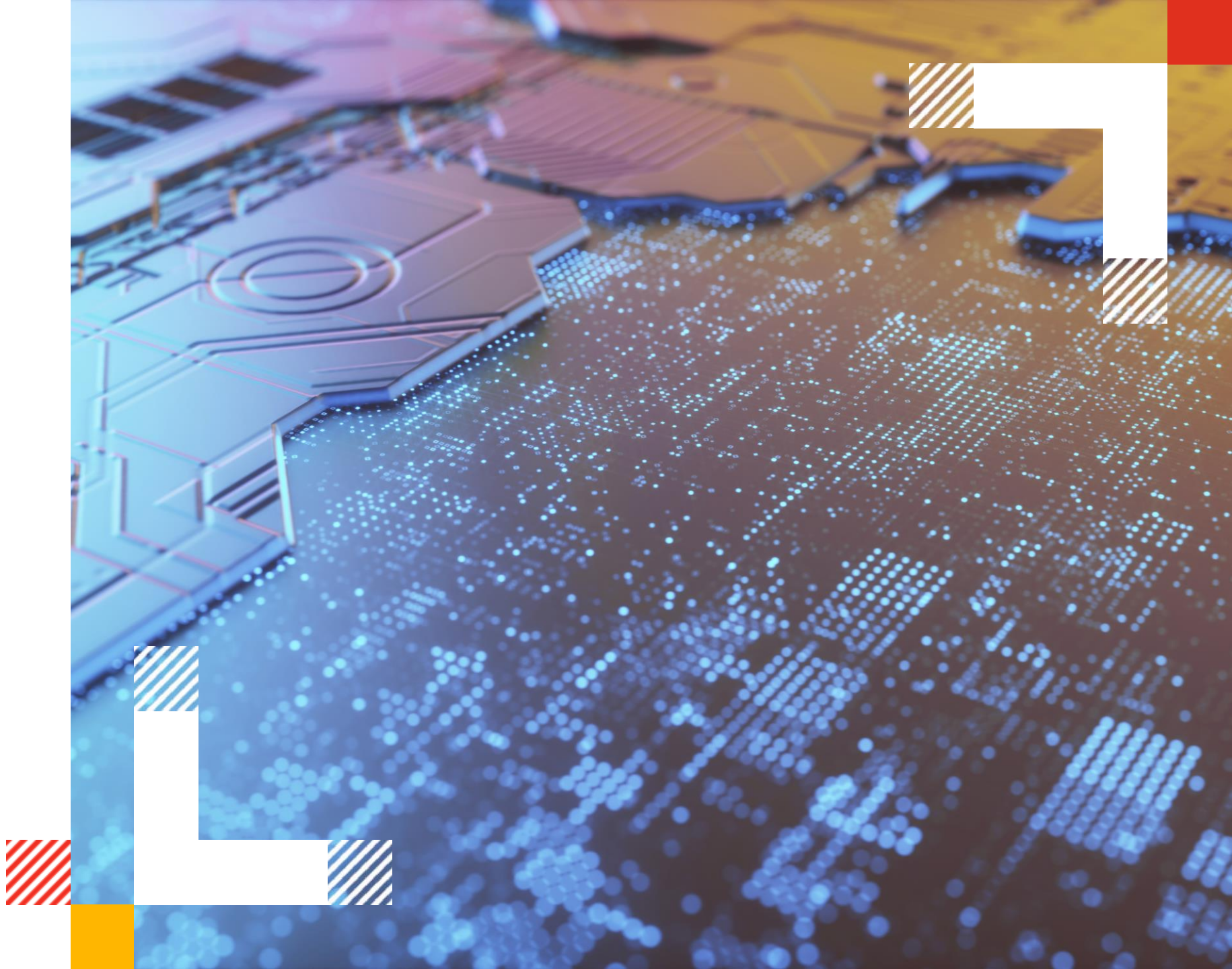
The loss components, both in total and for new business, primarily arise from protection contracts.

PIC

The FY24 new business loss component arose on new bulk annuity contracts that were entered into close to the year-end and before reinsurance arrangements were in place. At FY24, PIC notes: *'These contracts are expected to be profitable on a net of reinsurance basis. However, as any related reinsurance contracts were not entered into before or at the same time as the underlying contracts, IFRS does not allow for the recognition of an offsetting loss recovery component at initial recognition.'*

03

Post- implementation review of IFRS 17



What are the expectations for a post-implementation review?

The framework and experience of post-implementation reviews

The IASB has not yet confirmed the date of the Post-Implementation Review (PIR) of IFRS 17. However, based on experience from recent other standards, such as IFRS 9, it is likely that the IASB will wait until most jurisdictions have at least two years of experience of applying IFRS 17. This suggests that a review will not occur before 2027. Given the fundamental changes IFRS 17 brought to insurance accounting, the review **could conceivably be later** to allow a greater body of experience across preparers and users.

The [IASB website](#) outlines the process for PIRs with the objective *‘to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.’* Additionally, the IASB considers both *‘contentious matters’* during the development of new standards and how subsequent market developments are being addressed in practice. The PIR does not automatically lead to a revised IFRS standard and is not intended to resolve every application question.

There are also two other significant post-implementation reviews in Europe:

- In the UK, the UK Endorsement Board (UKEB) has [stated](#) that it will conduct a review of the impact of adopting IFRS 17 and publish its conclusions **by 1 January 2028**.
- The European Commission is [scheduled](#) to review the optional EU exemption from the IFRS 17 annual cohort requirement **by 31 December 2027**, taking into account the IASB PIR.

Recent experience

IFRS 15

The IASB concluded the PIR of IFRS 15 in September 2024. IFRS 15 *Revenue from Contracts with Customers* was effective from 1 January 2018. The PIR commenced in September 2022 and spanned two years from initiation to completion. The IASB engaged with investors, stakeholders and other interested parties to evaluate the implementation of IFRS 15, receiving 74 comment letters and conducting over 70 stakeholder meetings and engagement events. The overall conclusion was that IFRS 15 is working as intended with no fundamental issues identified. A small number of items were taken forward into the IASB’s agenda setting process, but these were classed as low priority.

IFRS 9

IFRS 9 *Financial Instruments*, which also became effective in 2018, had its PIR divided into three distinct phases by the IASB:

- i. Classification and measurement;
- ii. Impairment; and
- iii. Hedge accounting.

The first two phase have been completed, while the third phase is yet to commence. The IASB engaged with stakeholders in a similar way to the IFRS 15 review. During the Classification and Measurement PIR, several high priority matters were identified. Consequently, targeted amendments to IFRS 9 were published in May 2024 addressing ESG (environment, social and governance) linked loans and electronic transfers of cash.

What are the expectations for a post-implementation review? (continued)

What external reviews of IFRS 17 have there been to date?

In 2024 there were at least three external reviews of IFRS 17, each varying in relevance to UK life insurers:

- The **Financial Reporting Council (FRC)** published its thematic review on the [FY23 IFRS 17 disclosures](#) in September 2024, following its [HY23 interim report](#) from November 2023. Both reports assessed the disclosures, excluding the methodology and assumptions, across 17 UK insurers (covering life and non-life). The FRC noted in its FY23 report that they ‘were pleased with the overall quality’ and made a limited number of key observations. These included emphasising the importance of insurer-specific accounting policies and significant judgements/estimates, as well as meaningful assumption and sensitivity disclosures. They also highlighted the need for appropriate disaggregation and granularity of disclosure information, and explanations around Alternative Performance Measures such as adjusted operating profit.
- The April 2024, the **European Insurance and Occupational Pensions Authority (EIOPA)** published a [report on the implementation of IFRS 17 and synergies and differences with Solvency II](#). Later, in October 2024, the **European Securities and Markets Authority (ESMA)** released a report [exploring the first application of IFRS 17](#). ESMA examined a sample of 16 insurers, identifying themes in FY23 reporting that were similar to those noted by the FRC:



Overall, the results show that the disclosure requirements have in many cases been well covered ... However, there is room for improvement in the level of granularity and transparency in the application of the requirements relating, in particular, to transition provisions and accounting policies, judgements and estimates. In general, ESMA notes the low level of entity-specific details in some areas.”

- The **Canadian Accounting Standards Board** shared [their IFRS 17 experience](#) at the **IASB’s Accounting Standards Advisory Forum** in September 2024. This was the first such event, and many of the challenges noted will be familiar to UK life insurers. Key practical challenges included complexity and data, while technical challenges included annual cohorts and CSM mismatches from reinsurance and locking-in. There was also notable focus on the accounting for non-life long-tailed claims acquired during settlement. The meeting concluded that it is still too soon to fully assess implementation of IFRS 17.

IASB ASAF meeting considering Canadian views on IFRS 17:

‘The UKEB representative and some IASB members said it might be too early to evaluate whether the challenges the AcSB identified are simply symptoms of implementation. Entities are still learning from each other and, therefore, reporting practices will converge over time. Investors also need time to digest the new information and how it can be helpful in their analyses.’

[Sept 2024 notes](#)

What are the expectations?

It is too early to know which aspects of IFRS 17 might be evaluated in a Post-Implementation Review (PIR). Examples relevant to UK life insurers could include the use of annual cohorts, the approach to amortise and lock in the CSM for annuities, and mismatches for with-profit funds. Experience from other PIRs suggests that significant changes to IFRS 17 are unlikely. However, we explore possible enhancements in subsequent pages. Given the substantial costs associated with its implementation, UK life insurers may have limited appetite in investing further in changes to IFRS 17 once it has been embedded

How could we enhance IFRS 17?

The 26-year journey from April 1997, when the IASC (a precursor to the IASB) started an insurance accounting project, to 1 January 2023, when IFRS 17 was effective, has been a very long one, with numerous twists, turns and compromises. Given the extensive history, the idea to re-open IFRS 17 in any substantive way may be a step too far for many. Potential changes to IFRS 17 could be considered from various perspectives, such as improving consistency in approach and interpretation, reducing mismatches and the 'gap' between the AOP and IFRS result, operational simplification, and disclosure matters. Based on the UK life insurance experience of two IFRS 17 reporting cycles, including the common components of non-operating profit, we set out in the table some observations around four possible areas of focus.

Topic	Background	Observations
Annual cohort requirement	<ul style="list-style-type: none"> Applying the optional EU exemption in the UK would result in annual cohorts not applying to annuities (where in a Solvency II matching adjustment portfolio) or with-profit contracts (due to discretionary participation). The annual cohort requirement was in the 4 priority issues assessed by the UKEB on endorsing IFRS 17, without amendment. 	<ul style="list-style-type: none"> In ESMA's October 2024 report, 9 of the 16 EU insurers sampled explicitly disclosed application of the annual cohort exemption. In the EU, this exemption has, in our experience, only been applied to annuities in the Spanish market. In 2024, we observed that 3 out of 7 leading insurers in Spain opted not to apply annual cohorts, using a mix of weighting approaches to determine the locked-in rate. UK life insurers have developed systems to track annual cohorts as part of implementing IFRS 17, so any future relief may be considered as too late, except for potential new entrants. However, as time progresses, the extent and volume of data required to lock in annual cohorts for annuities will significantly increase.
Mismatches due to solvency hedging	<ul style="list-style-type: none"> The impact of hedging on a Solvency II basis can result in volatility in the IFRS results, as observed in our earlier analysis. Changes to address this could bring closer alignment between accounting practices and how insurers view their business. 	<ul style="list-style-type: none"> It is challenging to see how meaningful changes could be made to IFRS 17 to address this mismatch. The closest related topic is the risk mitigation option available for with-profit contracts, which has been adopted by some insurers in the UK. However, this option does not account for any wider hedging. We anticipate an exposure draft from the IASB later in 2025 on accounting for dynamic risk management. The key focus of this project to date has been on interest rate management in banks. However, the exposure process may present an opportunity for insurers to highlight their risk management strategies and the nature of this IFRS 17 mismatch, which could illustrate some similarities to the issues being addressed for banks, as well as how the proposals may be unsuitable to solve this challenge.
CSM locked-in (general model)	<ul style="list-style-type: none"> Mismatches in IFRS profit are observed when there are significant changes in longevity assumptions, due to the locked-in nature of the CSM. Additionally, the assets backing the locked-in CSM may be at fair value through profit or loss. The topic was assessed by the UKEB on endorsing IFRS 17, without amendment. 	<ul style="list-style-type: none"> As observed in our analysis, two insurers mitigate the asset and liability mismatch to some extent by holding an asset portfolio at amortised cost. Due to locked-in rates being lower than current interest rates, there are counterintuitive IFRS results. For example, a longevity weakening (or release) results in a loss because the increase in CSM more than offsets the reduction in the future cash flows. This is excluded from AOP by almost all UK life insurers. The implications from the CSM being locked-in were recognised and raised by some during the development of IFRS 17, such as in the ICAEW (UK Accounting Profession) paper in 2019. Moving the general model CSM to a current basis, similar to the variable fee approach, would represent a substantive change to the principles in IFRS 17.
Other mismatches	<ul style="list-style-type: none"> There are two other notable mismatches in IFRS 17 that are addressed in AOP by UK life insurers at FY24 The first mismatch arises from non-profit business in the with-profit fund (e.g. c£240m loss at M&G). In IFRS terminology, this mismatch is due to underlying items being accounted for at fair value. The second mismatch involves delayed reinsurance on new contracts, where profitable reinsurance once implemented would offset onerous new contracts. 	<ul style="list-style-type: none"> These two areas were discussed during the IASB's deliberations on IFRS 17, with additional provisions introduced by the IASB regarding reinsurance entered into on or before the inception of underlying contracts. Both topics were also assessed by the UKEB on endorsing IFRS 17 (without amendment), noting that the treatment of non-profit business in the with-profit fund impacts a "very small number of entities". It is perhaps unlikely that these mismatches would meet the conditions to be addressed in any IFRS 17 post-implementation review process.

How could we enhance IFRS 17? (continued)

Other areas that could be considered include:

- Is there too much variability in the approach to CSM amortisation? For example, in applying investment service and weighting of services.
- Accounting and actuarial data requirements were the most significant implementation challenges during the adoption of IFRS 17 and continue to be post-implementation. Could simplifying CSM, particularly how it is unlocked for changes in estimates and experience, potentially make reporting easier?
- Could the required groups within IFRS 17 be simplified? For example, removing the need to track two separate profitable groups.
- The extent of disclosure reconciliations required in IFRS 17 is notable when reviewing insurers' financial statements. An assessment of users' views on these reconciliations could be performed, with the objective of refining or reducing the volume required.
- More specifically on disclosures:
 - Could the required disclosures around the top-down discount rate used for UK annuities be enhanced given the significance of the judgement? For example, requiring the implied illiquidity premium to be disclosed, and providing more details on the selected reference portfolio.
 - How useful is the risk adjustment confidence interval disclosure as a measure of comparability between insurers?

Closing thoughts

In our experience many insurers continue to embed IFRS 17 within processes, controls, systems and broader business and financial planning. The second year of IFRS 17 reporting for UK life insurers has generally shown a stable accounting basis, with the focus rightly on business performance and strategic delivery.

The use of AOP by all life insurers as a key performance metric in remuneration shows that IFRS is being used. However, the extent and quantum of adjustments from the actual IFRS results, more so than historically under IFRS 4, perhaps highlights the challenges with core IFRS 17 results for UK life insurers. There is an acceptance by some insurers of volatility in IFRS profit and shareholder equity, with a focus on cash, capital and dividends.

We look forward to engaging in any future IFRS 17 post-implementation review!



04

Appendix

In the Appendix we provide further analysis on various technical approaches under IFRS 17. This includes the release of CSM for annuities, the selection of reference portfolios to discount annuity cash flows and the release of the CSM where there are investment services. We also present metrics on the risk adjustment and briefly explore what we could learn from US GAAP. Additionally, a list of the insurance companies considered in our publication is provided.



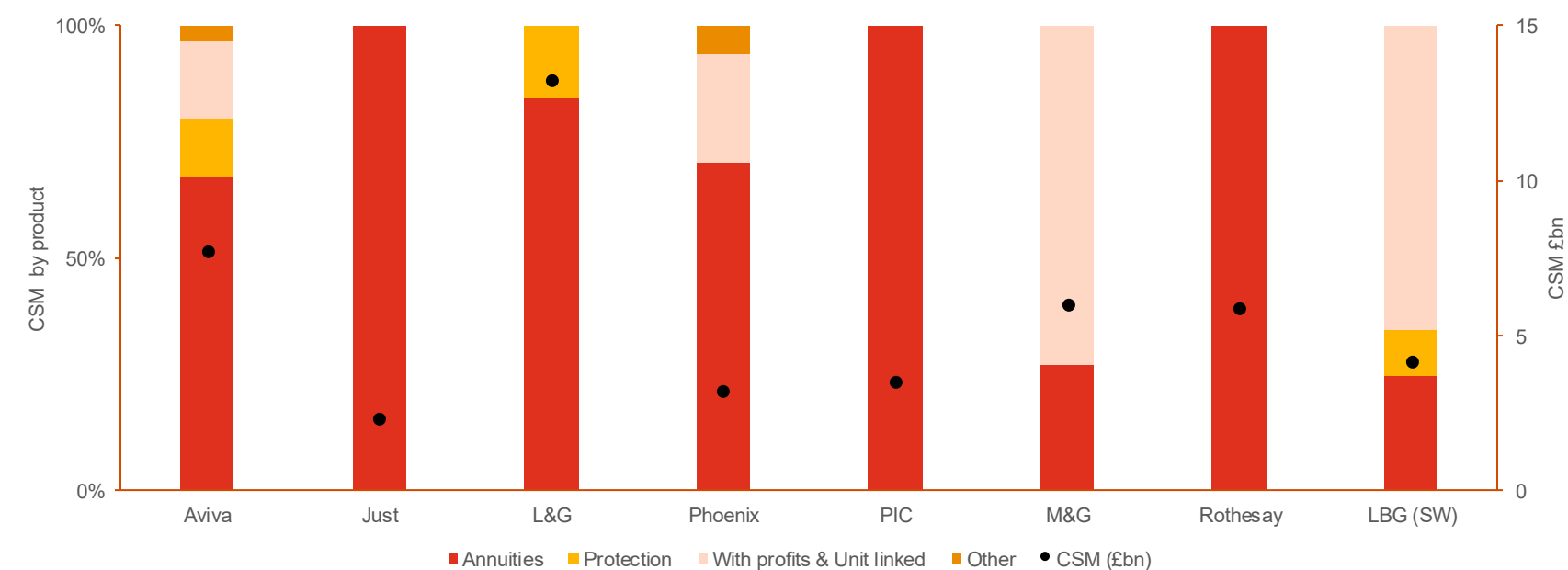
What is the breakdown of CSM by product?

The chart below presents the net of reinsurance CSM at FY24, split by product line. This analysis excludes any loss components or associated loss recovery components. As shown, annuities dominate the CSM balance, with some insurers also holding substantial amounts for with-profits and protection contracts. The CSM is limited for unit-linked contracts, reflecting that many are classified as non-participating investment contracts and accounted for outside IFRS 17, under standards such as IFRS 9. For example, at FY24, L &G, Aviva, and Phoenix collectively reported over £650bn of non-participating investment contract liabilities, primarily unit linked contracts.

70%
of the total net of reinsurance CSM relates to annuity contracts



CSM by product (FY24, net of reinsurance)



Source: PwC analysis and interpretation of FY24 and related external disclosures.

Notes:

1. Aviva: The 'Heritage' business is assumed to consist only of with profits and unit linked contracts, while 'Other' reflects the Ireland business.
2. Phoenix: Segments mapped as: 'Retirement Solutions' = Annuities, 'Pensions & Savings' and 'With profits' = With profits & Unit Linked; 'Europe & Other' = Other; and Protection is assumed to be nil
3. M&G: Disclosure groups mapped as: 'Annuities and other' = Annuities; All reinsurance is assumed to relate to Annuities, with the M&G accounts noting that 98% is attributable to Annuities; and 'With profit sub fund' and 'Unit Linked' = With profits & Unit Linked, which also includes non-profit annuity contracts written within the With profit sub fund.
4. LBG (SW) = Lloyds Banking Group (Scottish Widows Limited); Disclosure group 'Pensions & Investments' mapped to With profits & Unit linked.

How is the annuity CSM released?

For contracts that provide both insurance and investment services, such as deferred annuities, insurers need to weight the two services to derive the aggregate coverage units provided in each period to release (amortise) the CSM. The table to the right sets out the approaches adopted by the main UK annuity writers at FY24. We observe that:

- There are **no substantive changes in the approach compared to FY23**, which is not unexpected given the nature of this significant judgement and estimate.
- The level of disclosure varies across insurers with some being more explicit than others on specific aspects of their approach.
- The amortisation rate also depends on various factors other than the approach, such as the age of business and mix of immediate and deferred annuities.

Components	Aviva	Just	L&G	Phoenix	PIC	M&G	Rothesay
Driver in-payment phase	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo
Driver in-deferment phase	Expected return (Locked-in)	Expected return (Backing assets)	Expected return (Backing assets)	Fund size	Expected return (Transfer value) ²	Transfer amount	Value generated by investing deferred premiums and standing ready
Weighting between phases for deferred annuities¹	'Target' CSM	'Equivalent' service	'Target' CSM	'Consistent level of service' on transition	Same 'value' of services across phases	Not disclosed	'Target' CSM
Discounting	✓ (Rate not explicit)	✓ (Locked-in)	✓ (Rate not explicit)	✓ (Locked-in)	✓ (Locked-in)	✓ (Locked-in)	Not explicit

Source: PwC analysis and interpretation of FY24 and related external disclosures.

¹ Approach to weight between phases for deferred annuities:

Aviva: '... resulting in an approach that targets equivalence at retirement with the CSM for immediate annuities (when pricing in an active market) that provide an insurance service equivalent to that provided by the deferred annuities post-retirement.'

Just: '... appropriate weighting to apply is the probability of the policy being in force. This reflects the judgement ... that the value of services provided to policyholders is broadly equivalent across the different phases in the life of contracts.'

L&G: '... calculated so that the services provided in the deferral phase reflect the investment return provided and the probability weighted delivery of any lump sum death benefits, both adjusted so 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.'

Phoenix: '... calculated so that the services provided in the deferral phase reflect the investment return and those in the payment phase reflect the annuity payment with the total services adjusted to provide a consistent level of service when transitioning between the deferral phase and the payment phase.'

PIC: 'The number of coverage units provided in the deferred period is equal to the sum of the first two types of coverage unit only, and the number of coverage units provided once the policyholder has retired is equal to the third type of coverage unit only. This weighted combination reflects management's view that the value of services relating to each type of coverage unit are broadly comparable to each other.'

Rothesay: '... calculated by appropriately weighting the expected insurance and investment return service coverage units such that by the time a deferred annuitant reaches retirement, the CSM is consistent with that of an equivalent immediate annuitant and ensures that the relative values ascribed to the different services are consistent throughout the CSM amortisation over the lifetime of the contract.'

² PIC also explicitly states that their approach allows for the insurance service provided on spouses benefits during the deferred period.

Reference portfolios to discount annuities

The selection of the reference portfolio to determine the top-down discount rate for the valuation of annuity liabilities under IFRS 17 is an area of judgement.

Most UK annuity providers base the reference portfolio on the actual assets held, but with adjustments. To determine the point-of-sale CSM for new bulk annuities (the IFRS day 1 profitability metric), insurers typically use the expected target pricing asset mix as the reference portfolio rather than the assets received through the transaction. It is then typical to allow for a period of asset deployment, with the reference portfolio adjusted from the actual assets held.

The table summarises the approaches used by UK annuity providers, as disclosed at FY24, to allow for asset deployment when determining the reference portfolio along with any other notable observations on the reference portfolio selected.

Source: PwC analysis and interpretation of FY24 and related external disclosures, unless otherwise noted.
¹ Sourced from Aviva's July 2023 IFRS 17 comparative result publication.

Approach to allowing for asset deployment when setting the reference portfolio

Insurer	Is new business asset deployment allowed and, if so, how?
Aviva	Yes - The reference portfolio is adjusted for ' <i>... recently written contracts ... where appropriate assets are yet to be sourced.</i> ' In addition ¹ , the ' <i>... benefit from bringing the new business into our optimised portfolio compared to measuring each scheme on a stand-alone basis ...</i> ' in year 1 is not included in the point-of-sale target asset mix and CSM and is reported in P&L, as part of new business operating profit.
Just	Yes - The reference portfolio is adjusted ' <i>... to allow for a period of transition from the actual asset holdings to the target portfolio where necessary.</i> ' The period of transition is ' <i>Typically, ... up to 6 months but is dependent on the volume of new business transactions completed.</i> '
L&G	Not explicit - It is noted that ' <i>... any difference between the actual allocated asset mix and the target long term asset on new pension risk transfer business ...</i> ' is in non-operating profit. In addition, the FY24 point-of-sale new business CSM ' <i>... includes transacted annuity book optimisation from Direct Investment capacity enabled by gilts-based investment strategies ...</i> '
Phoenix	Yes - The reference portfolio is adjusted ' <i>... to allow for the asset portfolio included in the pricing of policies where that has not been fully deployed at the reporting date and there are no identified barriers to achieving the pricing asset mix, to reflect any strategic management actions actively underway to re-shape the annuity asset portfolio.</i> '
PIC	Yes - The reference portfolio is adjusted ' <i>... where there is a time lag ...</i> ' in investing new business premiums ' <i>... to reflect the anticipated assets.</i> '
M&G	Yes - The reference portfolio is adjusted ' <i>... to allow for a period of transition from actual asset holdings to the target portfolio.</i> ' The period of transition is ' <i>Typically, ... up to 12 months but may be dependent on the volume of new business. For the Value Share transaction written in 2024 ... can be up to 24 months.</i> '
Rothesay	Not explicit - It is noted that ' <i>The reference portfolio comprises a mix of assets that Rothesay owns or expects to buy backing insurance liabilities ...</i> '

Comparison of technical IFRS 17 approaches

The table below compares selected technical IFRS 17 approaches adopted by UK life insurers, highlighting some variations across firms. It is based on external FY24 disclosures and is not intended to be exhaustive.

Approach	Aviva	Just	L&G	Phoenix	PIC	M&G	Rothsay	LBG (SW) ⁴
Reporting date	27 February	7 March	12 March	17 March	18 March	19 March	27 March ¹	20 February (LBG) 26 March (SW)
IFRS 17 contract classification								
Approach to classify hybrid contracts (i.e. mix of with-profit and unit-linked)	Classified based on aggregate features	N/A	N/A	Classify using aggregate features	N/A	Classify after separating components	N/A	Classify using aggregate features
Apply IFRS 9 to account for certain with-profit contracts (i.e. those not under IFRS 17)	Not explicit	N/A	N/A	Not explicit	N/A	✓	N/A	Not explicit
Quantitative eligibility threshold for the VFA ('substantial' in IFRS 17.B101(b)&(c))	>50%	N/A	N/A	>50% (& further qualitative factors considered if <50%)	N/A	Not explicit	N/A	Not explicit
Apply indirect participating general model ⁵	✓ (with-profit contracts with GAOs)	N/A	N/A	Not explicit	N/A	X	N/A	✓ (with-profit contracts with GAOs/GMPs)
Apply contract combinations for individual bulk annuities written as multiple contracts	Not explicit	✓	Not explicit	Not explicit	Not explicit	✓	Not explicit	N/A
IFRS 9 asset classifications								
Holding an amortised cost asset portfolio	X	✓ (to partially back CSM, FY24:c.£4bn) ²	✓ (to partially back CSM) ³	X	X	X	X	X

Source: PwC analysis and interpretation of FY24 and related external disclosures.

¹ Rothsay's accounts were formally published on 27 March, however, these were approved and signed on 14 February 2025.

² Just introduced an amortised cost portfolio for the first time at HY23 and stated: 'A new amortised cost portfolio was created with £2.0bn of gilts during the period as a means of backing the IFRS 17 CSM and shareholder funds reserves with investments that do not expose the IFRS balance sheet to interest rate movements.'

³ At FY24, L&G held c.£9bn of debt securities at amortised cost, but not all these assets will be backing the annuity CSM. At HY23, L&G stated on implementing IFRS 9: "... the group has reassessed the classification and measurement of certain financial assets backing annuity liabilities, in order to better match interest rate and inflation sensitivities to IFRS 17 liabilities, and reclassified a portion of its portfolio of debt securities previously held at FVTPL. This is because, while the best estimate liability and risk adjustment under IFRS 17 for annuities are measured with current financial assumptions, the CSM is measured with locked-in discount rates. Therefore, a sub-portfolio of long dated debt instruments ... backing annuity contracts but in surplus to the IFRS 17 best estimate liability and risk adjustment, and passing the SPPI test, was separately identified. Starting 1 January 2023 ... They are held to maturity in a 'held to collect' business model and accounted for at amortised cost."

⁴ LBG = Lloyds Banking Group; and SW = Scottish Widows Limited.

⁵ GAO = Guaranteed Annuity Option; and GMP = Guaranteed Minimum Pension.

Comparison of technical IFRS 17 approaches (continued)

Approach	Aviva	Just	L&G	Phoenix	PIC	M&G	Rothsay	LBG (SW) ¹
IFRS 17 options								
OCI option for liability discount rate (with a portfolio of FVOCI/amortised cost assets)	X	X	✓ (protection business) ²	X	X	X	X	X
Applying the risk mitigation option for (VFA) with-profit contracts	✓ (equity & interest rate risk)	N/A	N/A	X (use of AOP)	N/A	X (use of AOP)	N/A	✓ (equity & currency risk)
Disaggregate changes in risk adjustment (financial/non-financial)	✓	✓	✓	✓	✓	✓	✓	X
IFRS 17 future cash flows								
Accounting for the transition of bulk annuities from buy-in to buy-out	Not explicit	Continuation (typically)	Not explicit	Not explicit	Continuation	Not explicit	Continuation (in general)	N/A
Contract boundary for with-profit contracts with GAOs	Whole term incl. annuity option	N/A	N/A	Whole term incl. annuity option	N/A	Not explicit	N/A	Whole term incl. annuity option
Treatment of cashflows relating to future with-profit policyholders ⁴	Not explicit	N/A	N/A	N/A closed fund & surplus allocated to existing p/hs	N/A	Explicit ('B71') liability for additional amount to current & future p/hs ³	N/A	Separate liability held for payments after insurance coverage
Application of IFRS								
Use of IFRS for Group and Insurance Subsidiary reporting	Both	Both	Both	Group only (moved to UK GAAP for subsidiaries at FY23) ⁵	Both	Group only	Both	Both

Source: PwC analysis and interpretation of FY24 and related external disclosures.

¹ LBG = Lloyds Banking Group; and SW = Scottish Widows Limited.

² At HY23, L&G stated: 'Under IAS 39, bonds ... backing certain protection liabilities were held at FVTPL in order to eliminate or reduce an accounting mismatch. Following the implementation of IFRS 17 this is no longer required, as finance income and expense on the insurance liabilities that these assets are held to back, are presented in OCI. The assets pass the SPPI test and are held in a 'held to collect and sell' business model, and are therefore accounted for at FVOCI.'

³ B71 refers to the paragraph number in IFRS 17 which is being applied by M&G. The 'B71 liability (net of an estimate of the effect of mutualization)' is stated in the M&G FY24 SFCR to be c.£8bn. In addition, the FY24 accounts (Note 32.7.3) states that there is c.£0.9bn of IFRS shareholder equity reflecting the shareholders' allocation of with-profit surplus assets which is 'not easily or practicably fungible to shareholders in the short-term'.

⁴ p/hs = policyholders.

⁵ For a comprehensive understanding of the future of UK GAAP for life insurers, please refer to our [September 2024 publication](#). It highlights the continued widespread use of UK GAAP, particularly among mutual insurers and friendly societies in the UK.

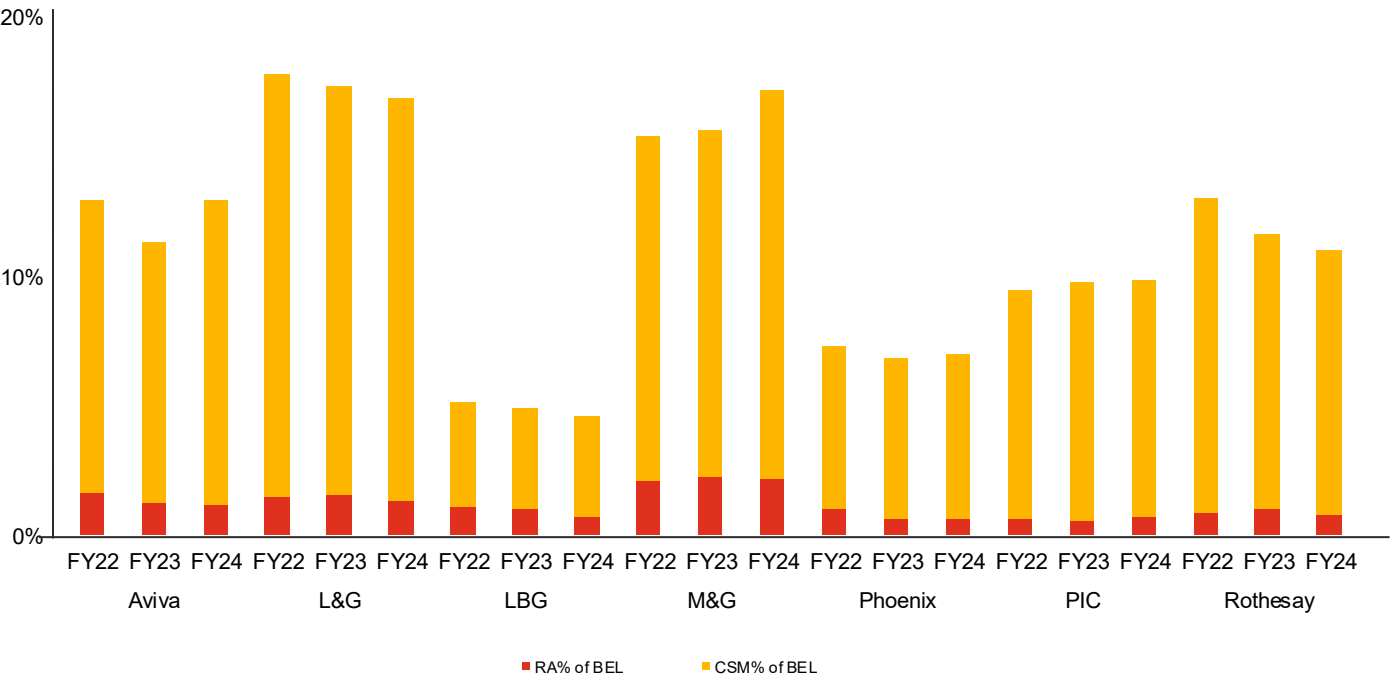
Risk adjustment

At FY24, the disclosed risk adjustment percentiles have remained consistent with those of FY23, with only slight changes for Rothesay and LBG. The chart below presents the risk adjustment (RA) and CSM as a percentage of the best estimate liability, also known as present value of future cash flows under IFRS 17, specifically for annuities on a net of reinsurance basis. It is evident that the risk adjustment is a relatively small component of the insurance contract liability and the variability in its size across insurers is likely to be attributable to the extent of reinsurance coverage in place.

Risk adjustment percentile

Insurer	'1 year view' view	'To ultimate' view
Aviva	Not disclosed	68 th
Just	90 th	70 th
L&G	85 th	75 th
Phoenix	80 th (Gross)	61 st (Gross)
PIC	85 th	69 th
M&G	75 th	60 th
Rothesay	90 th	63 rd
LBG	85 th	68 th
HSBC	75 th	Not disclosed for UK business
Prudential	75 th	Not disclosed
Chesnara	67 th	60 th

Annuity risk adjustment and CSM as a percentage of the best estimate liability (net of reinsurance)¹



Source: PwC analysis and interpretation of FY24 and related external disclosures (including prior years).
¹ The analysis is based on the IFRS 17-required disclosure reconciliation tables. Aviva reflects the 'Life Risk' disclosure group which includes protection with annuities (as not split out separately). For M&G, the 'Annuity and other long-term business' disclosure group is presented; it is not clear what products other than annuities are included, and it is assumed that all reinsurance relates to this disclosure group. For Phoenix, the 'Retirement Solutions' segment is presented.

CSM release relating to investment service on savings contracts

IFRS 17 requires that the CSM is released to profit using coverage units and in line with services provided to the policyholder. These services include investment service, whether it is investment-return under the general model or investment-related under the variable fee approach. For most UK insurers, the investment service for savings contracts is based on the account value, specifically the unit value or asset share. Globally, there are different applications, for example, in Continental Europe there exists an additional ‘real-world’ service, which may suggest a relative acceleration in the CSM release compared to the UK, while in Asia a constant measure of service appears more common.

UK experience

A summary of the approach used by UK life insurers to allow for investment service when releasing the CSM is set out in the table below:

Insurer	CSM release pattern	
	Unit-linked ¹	With-profits
Aviva	Sum assured including unit value	Cost of guarantees plus asset share
Phoenix	Annual management charge & insurance charges	Maximum of guaranteed benefit & asset share
M&G	Greater of unit fund value (or asset share) & death benefit	
LBG (Scottish Widows)	Policyholder's account value (unit value or asset share), or if greater the guaranteed benefit	
AEGON UK (Scottish Equitable)	Expected total accumulated deposits or premiums over the lifetime	Not explicit
Chesnara	Higher of death benefit, account value & maturity benefit	

Source: PwC analysis and interpretation of FY24 and related external disclosures. The only exception is for AEGON UK where the FY23 Scottish Equitable accounts were used.

¹ This relates to unit-linked contracts in the scope of IFRS 17 (i.e. with significant insurance risk). Many unit-linked contracts in the UK will be investment contracts not in the scope of IFRS 17 and accounted for under other IFRS standards, such as IFRS 9.

Global experience

Extracts from FY24 IFRS reporting:



AXA – “In order to allow an appropriate pattern of the CSM release in profit or loss over the coverage period, consistently with the IFRS 17 definition of the investment-related service, the number of coverage units is determined on the basis of policyholders’ mathematical reserves, which are adjusted by considering the expected return of underlying items resulting from real world (RW) deterministic assumptions.”

Allianz – “Generally, the Allianz Group has defined for Life/Health the account value for the reflection of investment services ... An additional CSM release is considered to avoid a delayed profit recognition by systematic real-world returns of direct participating business measured with the VFA. This adjustment reflects the expected real-world returns in relation to the risk-neutral returns applied in IFRS 17 measurement for a more appropriate allocation of the services provided in the current period, i.e., the relating income in the P&L is based on real-world assumptions. ...”

Prudential – “Investment-related and investment-return services are assumed to be constant over time.”

HSBC – “Investment services (including both investment-return service and investment-related service): This is based on a constant measure basis which reflects the provision of access for the policyholder to the facility.”

IFRS Sensitivities

Key themes:

- Whilst almost all insurers produced consistent stresses, there is **considerable variety in the magnitude** of each stress. As the impacts are not necessarily linear, it is difficult to make a direct comparison.
- Economic sensitivities, such as interest rates, are **influenced by the hedging approach** adopted by insurers. Typically, insurers hedge on a Solvency II basis rather than for IFRS which, as observed earlier in this publication, can result in volatility in the IFRS result at a given point in time.

Insurer	Annuitant mortality (Base)	Annuitant mortality (Trend)	Credit default	Risk adjustment confidence interval
Aviva	Base Mortality: –2% ~c3% decrease in Net CSM	Not disclosed	Not disclosed ¹	CI: +2.5% (Ultimate) ~c8% increase in Net RA ²
Just	Base Mortality: –5% ~c6% decrease in Net CSM	Trend: +10% ~c2% decrease in Net CSM	Default: +10bps ~£218m decrease in PBT (Pre)	CI: +5% (Ultimate) ~c31% increase in Net RA
L&G	Base Mortality: –1% ~c1% decrease in Net CSM	Not disclosed	Default: +10bps ~£408m decrease in PBT (Post)	CI: +1% (One Year) ~c3% increase in Net RA
Phoenix	Base Mortality: –5% ~c13% decrease in Net CSM	Not disclosed	Not disclosed ¹	Not disclosed
PIC	Base Mortality: –5% ~c4% decrease in Net CSM	Trend: +0.1% ~c2% decrease in Net CSM	Not disclosed ¹	Not disclosed
M&G	Base Mortality: –1% ~c1% decrease in Net CSM	Trend: +0.25% ~c3% decrease in Net CSM	Default: +5bps ~34m decrease in PBT (Post)	CI: +5% (One Year) ~c20% increase in Net RA
Rothsay	Base Mortality: –5% ~c0.5% decrease in Net CSM ³	Not disclosed	Not disclosed ¹	Not disclosed
LBG	Base Mortality: –5% ~c1% increase in PBT ³	Not disclosed	Not disclosed ¹	Not disclosed

Source: PwC analysis and interpretation of FY24 and related external disclosures.

¹ Aviva, LBG, Phoenix, PIC and Rothsay did not disclose a specific stress relating to the credit default assumption. However, they did include a +/- 50 (Aviva), +25 (LBG) and +100 (Phoenix, PIC, Rothsay) bps change in credit spread respectively.

² The figures for Aviva relate to the impact for Life Risk and Participating disclosure groups.

³ For LBG, the sensitivity is only provided for profit before tax (PBT). For Rothsay, the sensitivity is provided for AOP and PBT so the CSM impact is implied.

To end, what about US GAAP?

When were change made to US GAAP?

In evaluating IFRS 17, we could also consider US GAAP, the US accounting standards. In 2018, the FASB (the US equivalent of the IASB) issued Accounting Standards Update 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts ('LDTI'). This made revisions, in some places significant, to the accounting for life insurers in the US with an effective date of 1 January 2023 (for filers with the US SEC) or 1 January 2025 (for others). The length of market experience is therefore the same as IFRS 17.

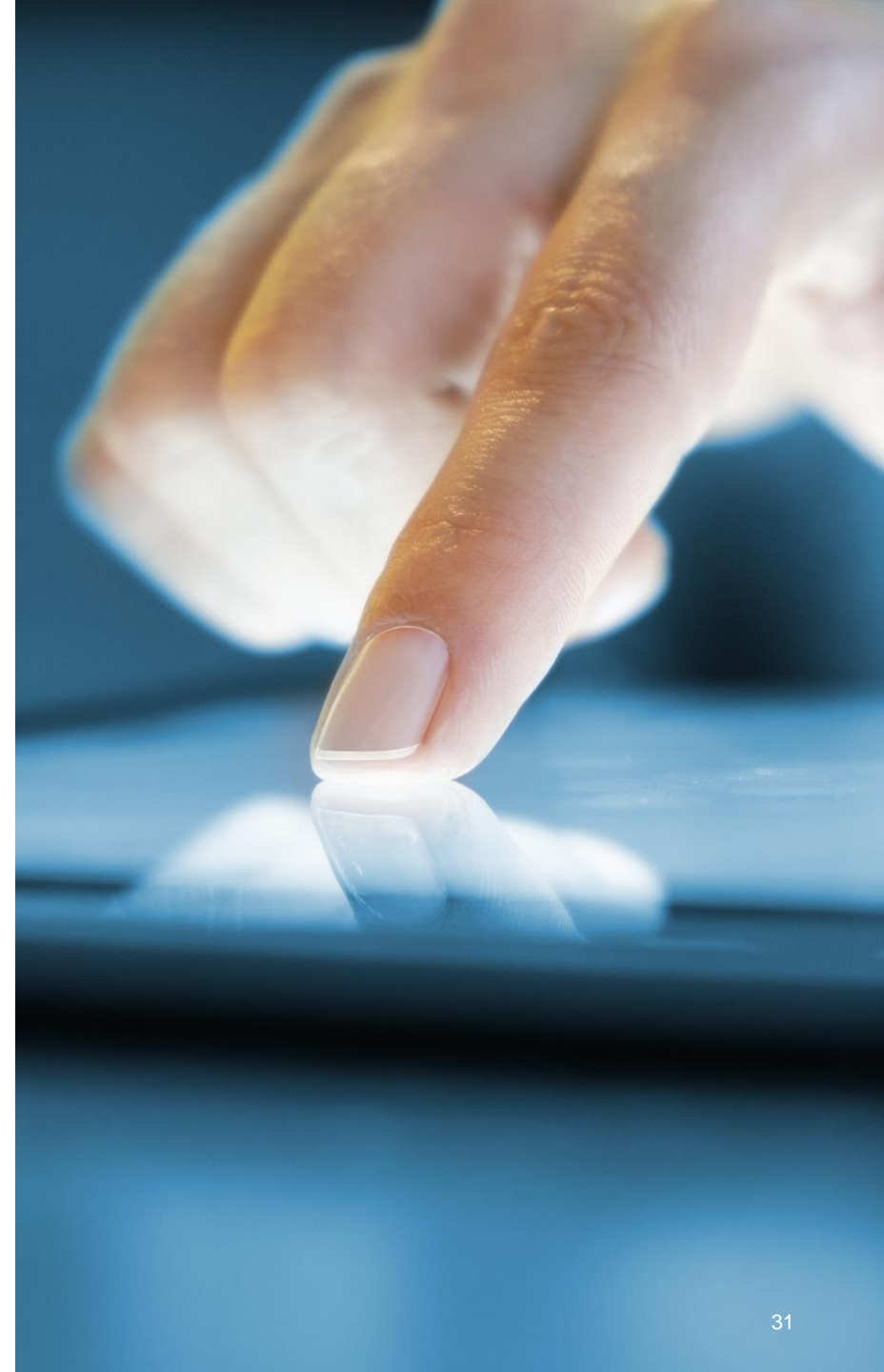
Applying US GAAP to UK products

There is limited to no post-implementation experience of LDTI or US GAAP more broadly in the UK. However, the key features of applying LDTI to UK annuities would be likely to include:

- A single deferred profit liability (DPL) with no split between risk adjustment and CSM, **so perhaps operationally easier than IFRS 17.**
- A full retrospective catch-up when the DPL is unlocked, for example for changes in longevity assumptions, that is reassessed from inception. **This is potentially more onerous than IFRS 17.**
- The DPL is amortised using expected future benefit payments, there is no concept of services, and accretes interest at inception rates.

The US GAAP model for annuities is different to IFRS, but there are similarities in spreading of profit through the contract lifetime. Applying US GAAP to more complex UK products, such as with-profits, would require careful consideration.

For further information on US GAAP, please see PwC Viewpoint, for example, accounting for [limited payment insurance contracts](#).



Appendix: List of UK life insurance companies considered

Company

Aviva

Just Group (Just)

Legal & General (L&G)

Phoenix

Pension Insurance Corporation (PIC)

M&G

Rothesay

In addition, for certain analysis the following other insurers (or insurance operations) were considered: Lloyds Banking Group (including Scottish Widows Limited accounts), AEGON UK (Scottish Equitable Limited plc accounts only), AXA, Allianz, Prudential, HSBC and Chesnara.



05

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Other related PwC publications



Available on the PwC website:

Future of UK GAAP for life insurers:

<https://www.pwc.co.uk/industries/financial-services/insights/future-of-uk-gaap-for-life-insurers.html>

FY23 UK IFRS 17 disclosures:

<https://www.pwc.co.uk/financial-services/assets/pdf/ifrs-17-fy23-uk-reporting-analysis-april-2024.pdf>

HY23 UK IFRS 17 disclosures:

<https://www.pwc.co.uk/financial-services/assets/pdf/ifrs-17-hy23-uk-results-analysis.pdf>



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