



IFRS 17 Full Year 2025 and Wider Reporting Matters

Analysis for UK life insurers

April 2026

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Executive summary



Executive summary

A year of change!

- 2025 marked a year of change in the UK life insurance market, notably the acquisitions of PIC, Just Group and Utmost L&P by Athora, Brookfield and JAB Insurance, respectively; Phoenix's name change to Standard Life; L&G's partnership/divestment with Meiji Yasuda, alongside a partnership with Blackstone; Aviva completing its acquisition of Direct Line; M&G's partnership with Dai-ichi; and Chesnara becoming a FTSE 250 constituent through acquisitions.
- In this period of change, the third year of IFRS 17 provided accounting stability, with continued focus on performance and execution.

This publication provides analysis of the disclosures made by the largest UK life insurers, building on our recent series of publications. It also explores wider financial reporting developments relevant for UK life insurers, including IFRS 18.

The UK post-implementation review

- In early 2026, the UK Endorsement Board (UKEB) commenced its post-implementation review (PIR) of IFRS 17, which is scheduled to complete by 1 January 2028. This will be the first substantive review of IFRS 17, ahead of the IASB's formal PIR.
- It is too early to know which areas of IFRS 17 will be reviewed by the UKEB or the IASB. Given the significant spend in implementing IFRS 17, there may be limited appetite to invest further, particularly in the unlikely event that there are significant changes to the standard.

In this publication, we explore the context of the UKEB's PIR and examine potential areas that could be considered. Looking further ahead, the completion of the UKEB PIR may prompt the FRC to consider the future of UK GAAP for insurers.

What next for finance?

- Transformation remains a key focus for many, whether addressing legacy deficits or leveraging technology and AI to improve efficiency, enhance insights and reduce costs.
- Finance teams continue to prioritise their role as strategic business partners, seeking to drive value, support commercial outcomes and provide more timely insights. This change is being driven by insurers' ambitions rather than regulatory deadlines. Success will depend on how effectively finance teams leverage data, technology and AI, and harness the experience and expertise of their people.

If you would like to discuss the content of this publication, please contact the authors listed at the end or your usual PwC contact.



2025 was a year of significant change for UK life insurers, driven primarily by acquisitions. From a financial reporting perspective, the third year of IFRS 17 saw a continued and welcome focus on performance over accounting specifics. I welcome the UKEB post-implementation review as an important opportunity to reflect on both the benefits and challenges of IFRS 17, and I look forward to engaging with the review!

Anthony Coughlan

PwC IFRS 17 UK Reporting Lead

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Analysis of IFRS disclosures



Key observations

The full year 2025 **marked the third year** of IFRS 17 reporting and the market has now entered a period of **reporting stability**, with no significant changes in approach observed, although one insurer intends to make a voluntary change in accounting policy in 2026. Adjusted operating profit remains the primary IFRS-related performance metric. For some insurers, IFRS 17 processes and controls **remain more manual than their long-term target states**, and there continues to be a focus on measured and cost-effective finance transformation initiatives.

It will be interesting to observe in 2026 the impact on financial reporting arising from the significant changes in ownership announced in 2025, notably relating to PIC and Just Group. For example, there may be insights from IFRS alignment exercises and the potential application of US GAAP.

- There **are no significant changes to the definition of adjusted operating profit (AOP) compared to last year**. For insurers recognising the Contractual Service Margin (CSM) in AOP, mismatches continue to be presented within non-operating profit, for example the counterintuitive IFRS loss from longevity assumption releases, where a reduction in the best estimate liabilities is more than offset by an increase in the CSM due to the difference between current and locked-in rates.
- **Significant IFRS losses, or non-operating losses, continue to be recognised by some insurers**. The extent of these losses varies and reflects a combination of structural mismatches arising from 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.
- The balance between shareholder equity and CSM continues to vary across insurers, and for some insurers there is a **notable disconnect** between Group consolidated IFRS shareholder equity and distributable reserves, which we explore in this publication.
- There are some revisions to 2026 remuneration metrics, typically reflecting strategic developments within the business or changes to external targets. All FTSE-listed life insurers within our sample continue to **include at least one IFRS-related performance measure based on AOP (or a close equivalent)**.
- It is now three years since transition to IFRS 17 and, as a result of the approaches adopted and judgements made at that time, reduced comparability across UK life insurers persists. Notable areas include the **run-off of the transition CSM determined on a fair value basis, which will reduce over time**, and instances where choices were made to achieve improved matching of assets and liabilities on an IFRS basis.
- Since the implementation of IFRS 17, there have been **no significant changes in the disclosed future CSM release patterns for annuities** or in the approach to releasing the CSM for deferred annuities. This includes the key judgement regarding the weighting of service between the in-payment and in-deferment periods.
- There **continues to be considerable variability in the IFRS 17 illiquidity premium across annuity writers**; however, for each annuity writer individually, the illiquidity premium is consistently comparable to, or larger than, the Solvency II matching adjustment.
- **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 represents 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 largely consistent since implementation. 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, the level of onerous contracts remains limited.

We explore these observations further in this section and in the detailed Appendix. The Appendix also explores how Group consolidated IFRS equity compares to distributable reserves, exceptional items excluded from AOP, the release of the CSM where investment services are provided, and metrics relating to the risk adjustment.

Adjusted operating profit

All UK life insurers present Adjusted Operating Profit (AOP) as a key performance measure. At FY25, we observed:

- The definition of AOP used by each insurer **remains consistent with FY24**, with a limited number of specific changes.
- Two distinct approaches continue** in recognising the IFRS 17 CSM in AOP (i.e. inclusion versus exclusion). When the CSM impact is excluded, AOP broadly aligns with pre-IFRS 17 measures, notably capturing significant new business profits.
- The assumed long-term investment performance to determine the expected return **remains a key judgement** in AOP.
- There is **increasing focus on back-book asset optimisation** actions for annuities **as a sustainable source** of future AOP.
- Significant IFRS 17-related mismatches continue** to be reported in non-operating profit by some insurers. For example, L&G reported a mismatch loss of c.£285m at FY25 relating to the locked-in CSM for annuity contracts.
- For insurers recognising the impact of the CSM within AOP, the measure may be **viewed as more predictable** and less dependent on management actions during the year, such as new business volumes and changes in demographic assumptions.

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

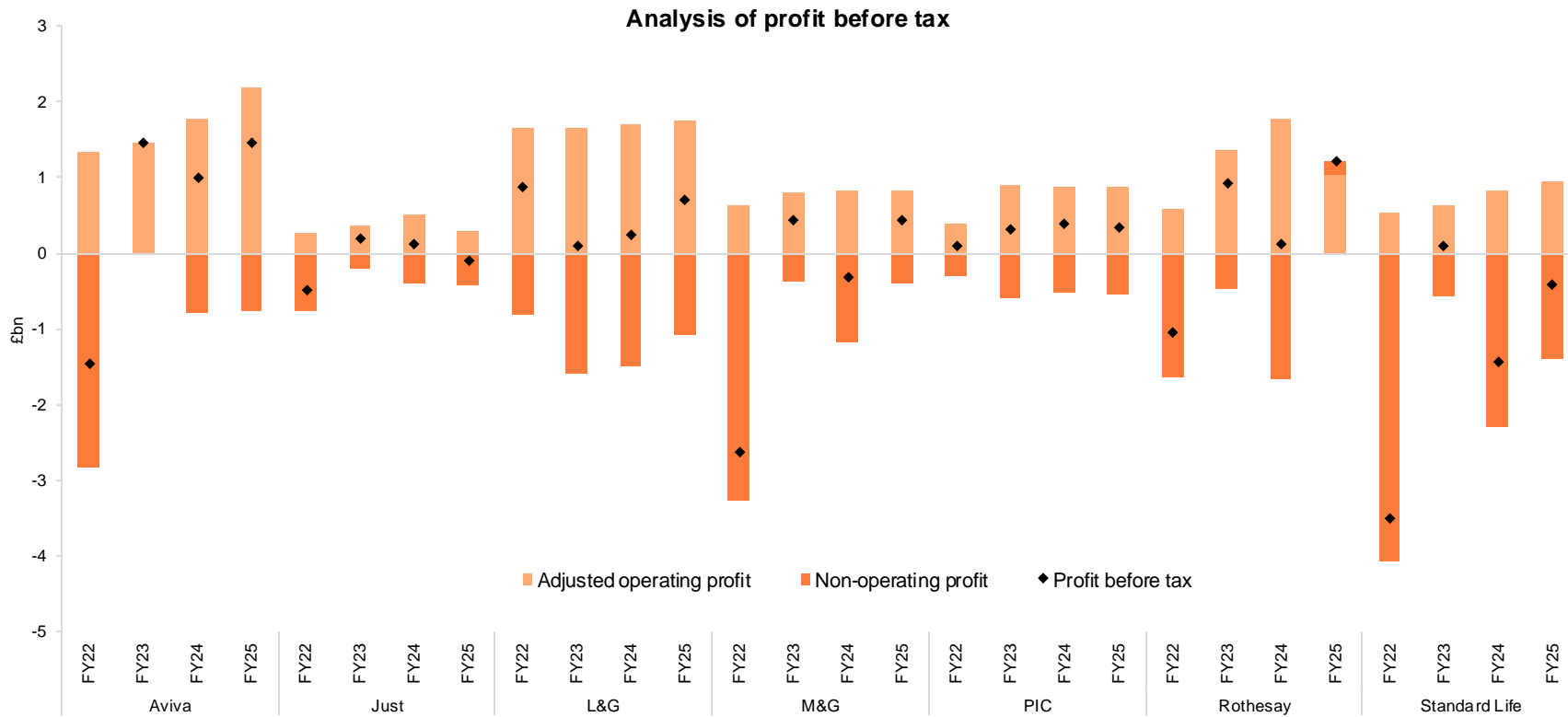
	Aviva	Just	L&G	M&G	PIC	Rothsay	Standard Life	Chesnara ⁹
Components of AOP								
CSM release	✓	x	✓	✓	x	x	✓	✓
New business profit	x	✓	x	x	✓	✓	x	x
Risk adjustment release	✓	✓	✓	✓	✓	✓	✓	✓
In-period experience variances (non-economic)	✓	x ²	✓	✓	✓	✓	✓	✓
Non-economic assumption changes (future cashflows)	Some ¹	x ²	x	x	✓	✓	x	x
Expected return ³	✓	✓	✓	✓	✓	✓	✓	✓
Asset optimisation ⁴	✓	x	✓	✓	✓ [New]	Not explicit	✓	Not explicit
IFRS 17 mismatches excluded from AOP								
Annuity CSM lock-in ¹	x ¹	N/A	✓	✓	N/A	N/A	✓	x
Non-profit business in with-profits funds ⁵	Not explicit ⁵	N/A	N/A	✓	N/A	N/A	✓	x
Reinsurance-related mismatches ⁶	Not explicit	Not explicit	✓	✓	x	Not explicit	Not explicit	x
Other exclusions	Non-life acquired claims ⁸ [New]	-	-	Adj. for internal pension buy-in & expense look-through ⁷	-	-	Adj. for internal pension buy-in	-

Source: PwC analysis and interpretation of FY25 and related external disclosures.

Notes:

- The annuity CSM lock-in mismatch arises when changes in estimates (e.g. longevity assumptions) affect the CSM, which is calculated using interest rates locked in at inception, while the impact on the best estimate liability reflects current interest rates. This difference gives rise to an IFRS profit or loss and, for **Aviva (only)**, is included in AOP. The mismatch applies to all products under the IFRS 17 General Measurement Model (GMM) but is most pronounced for annuity contracts and can result in counterintuitive impacts in IFRS profit. For example, where locked-in rates are lower than current rates (as is commonly the case), a reduction in life expectancy for an annuity contract would result in an IFRS loss.
- Just's** headline non-GAAP profit measure is 'Underlying Operating Profit'. This measure excludes the impact of non-economic experience variances, as well as changes in demographic and expense assumptions. An additional non-GAAP measure, 'Adjusted Profit before tax', is also disclosed, which represents IFRS profit before CSM deferral and tax.
- The expected return applies to all product lines and reflects assumed long-term investment assumptions on assets backing liabilities and surplus assets. For with-profits 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 **Standard Life**.
- This component captures back-book asset optimisation actions for annuities. At FY25, there has been increasing focus on this source of future profit, for example:
 - L&G** notes the optimisation as "providing a sustainable recurring source of profit", with the level at FY25 being over £300m (across bulk and retail annuities).
 - PIC** revised their definition of AOP to include this item and restated their FY24 comparative AOP.
 - Standard Life** refers to the optimisation as one of their "recurring management actions", with the level at FY25 being over £200m (in Retirement Solutions).
 For **Just**, "the effect of asset trading" is part of investment/economic movements, a component of non-operating profit.
- The mismatch relating to non-profit business in with-profits 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-profits contracts, where the interaction is accounted for at fair value. **Aviva's** AOP definition "... includes movements in the liabilities to with-profits policyholders that offset the operating result of non-profit contracts written in the with-profits funds." It is not explicit whether the mismatch arising from non-profit business in with-profits funds is within AOP or not.
- L&G**: Any timing or economic differences between the recognition of reinsurance and underlying contracts is excluded from AOP.
M&G: 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.
PIC: Loss components were recognised on FY25 and FY24 new bulk annuities (£12m and £76m, respectively) for which the expected longevity reinsurance had yet to be transacted (due to the timing of new business in each year). The PIC IFRS new business profit metric allows for the expected future reinsurance, while the timing variance arising from not transacting the reinsurance in advance is recognised as a negative experience variance within AOP.
- This is where **M&G** removes the IFRS-required expense look-through relating to internal asset management arrangements.
- For FY25, **Aviva** removed a perceived mismatch whereby acquired claims in settlement (following the Direct Line acquisition) are reported under the IFRS 17 General Measurement Model, while equivalent organic claims are reported under the IFRS 17 Premium Allocation Approach (PAA). In AOP, the PAA is applied to these claims, with the difference between this approach and the General Measurement Model reported as a non-operating item. This adjustment is expected to continue until the claims have fully run off.
- Chesnara** introduced an AOP measure for FY25 reporting (with a FY24 comparative) as part of a new smaller set of metrics intended to "... provide greater clarity, consistency and comparability ...". The IFRS 17-related components of AOP have been inferred from the Chesnara reconciliation presented between AOP and IFRS profit.

Adjusted operating versus non-operating profit



Source: PwC analysis and interpretation of FY25 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. Chesnara has been excluded on the basis of size (e.g. FY25 AOP and PBT of £56m and £19m, respectively; and FY24 of £39m and £21m).

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 in a number of years.

Excluding exceptional items (see further details in the Appendix) and amortisation of acquisition-related intangible assets, **the main non-operating items are** investment variance and IFRS 17 mismatches (or, for those insurers which exclude it from AOP, movements in the full CSM balance). Investment variance reflects the extent to which the investment return achieved over the year differs from the assumed long-term expected return and includes structural mismatches arising from Solvency II-based hedging. This is particularly notable for Standard Life, which at FY25, consistent with previous years, stated: *"Movements in equity markets and inflation 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."*

Standard Life is planning a **voluntary change in accounting policy in 2026** to adopt the IFRS 17 Risk Mitigation Option (RMO) for Variable Fee Approach (VFA) business (with-profits and unit-linked insurance contracts): *"The RMO will be applied for the Group's equity risk hedging strategy and, as required, prior periods from 1 January 2022 will be restated from the point the RMO conditions were met. The Group has determined that it meets all the RMO conditions in terms of economic offset and documentation to make this voluntary election. The impact of this change at 31 December 2025 is estimated as a £0.1 billion increase in retained earnings."* Certain peers, for example Aviva and Scottish Widows (LBG), selected the RMO in relation to equity risk hedging on the transition to IFRS 17.

The impact of changes in interest rates on IFRS results can be observed from disclosed sensitivities, as set out in the Appendix. **Some insurers seek to mitigate this sensitivity**, for example, L&G and Just each hold a portfolio of assets measured at amortised cost to partially back the annuity CSM.

Financial measures used for remuneration

Following the implementation of IFRS 17, revisions to remuneration measures typically reflect strategic developments within the business or changes to external targets. The table sets out the financial performance measures used by the main FTSE-listed life insurers to determine Directors' remuneration for 2025, with planned changes for 2026 highlighted.

In summary:

- **Aviva** has introduced notable changes to its measures following a review of its remuneration policy. Short-term measures remain unchanged; however, there is an increased weighting towards operating profit, "reflecting Aviva's shift to a capital-light model", and the long-term measures reflect revised external targets. Of the six measures, three are now IFRS-based. In addition, the disclosure notes: "As we have developed into a diversified capital-light business, the Committee wishes to reflect that we are increasingly being compared to European multi-line peers."
- Following **Brookfield's acquisition of Just Group**, FY25 is expected to be the final year in which remuneration details are published. There are some refinements for 2026, resulting in the inclusion of four IFRS-related measures (out of seven), with tangible net asset value (IFRS) replacing relative total shareholder return.
- For **L&G**, the number of short-term measures has been reduced to five, with AOP no longer explicitly included, although it is contained within the newly introduced adjusted core operating EPS.

The changes for 2026 indicate an increase in the use of adjusted IFRS measures.

Insurer	Direct IFRS-related				Other measures				
	AOP	Net movement in CSM	Earnings per share (EPS)	Return on equity (RoE)	Cash generation/remittances	Operating surplus/capital generation	New business value	Cost savings	Net flows and AUM
Aviva	✓ (ST)	x	✓ (LT: IFRS operating EPS for 2026)	✓ (LT: IFRS-based RoE replaces S2-based for 2026)	✓ (ST: Cash remittance; and cumulative for LT in 2025 only)	✓ (ST: S2 own funds generation)	x	✓ (ST: efficiency measure)	x
Just	✓ (ST: underlying operating profit)	x	x	✓ (LT: IFRS-based RoE; and IFRS-based TNAV for 2026)	x	✓ (LT: cash generation, similar to underlying capital generation)	✓ (ST: IFRS NB profit; and IRR replaces S2 NB strain for 2026)	x	✓ (ST: assets under admin. for 2026)
L&G	✓ (ST for 2025 only, no AOP in 2026)	x	✓ (ST: Adj. core operating EPS for 2026 (replace unadjusted); and LT: EPS growth)	x	x	✓ (ST: S2 operational surplus generation)	✓ (ST: S2 NB value add (combined); and NB CSM for 2025 only)	x	✓ (ST: flows and revenue; two measures replace one for 2026)
M&G	✓ (ST: AOP + Operating change in CSM; and LT: AOP growth)		x	x	x	✓ (ST: Operating capital generation (OCG); and LT: Cumulative OCG; both exc. NB strain)	x	✓ (ST: AM cost to income ratio for 2026)	✓ (ST: Net client flows from open business)
Standard Life	✓ (ST and LT cumulative)	x	x	x	✓ (ST and cumulative for LT)	✓ (ST: operating own funds (URT1 exc. Economics), LT: surplus)	x	✓ (ST, removed in 2026)	x

Source: PwC analysis and interpretation of FY25 and related external disclosures.

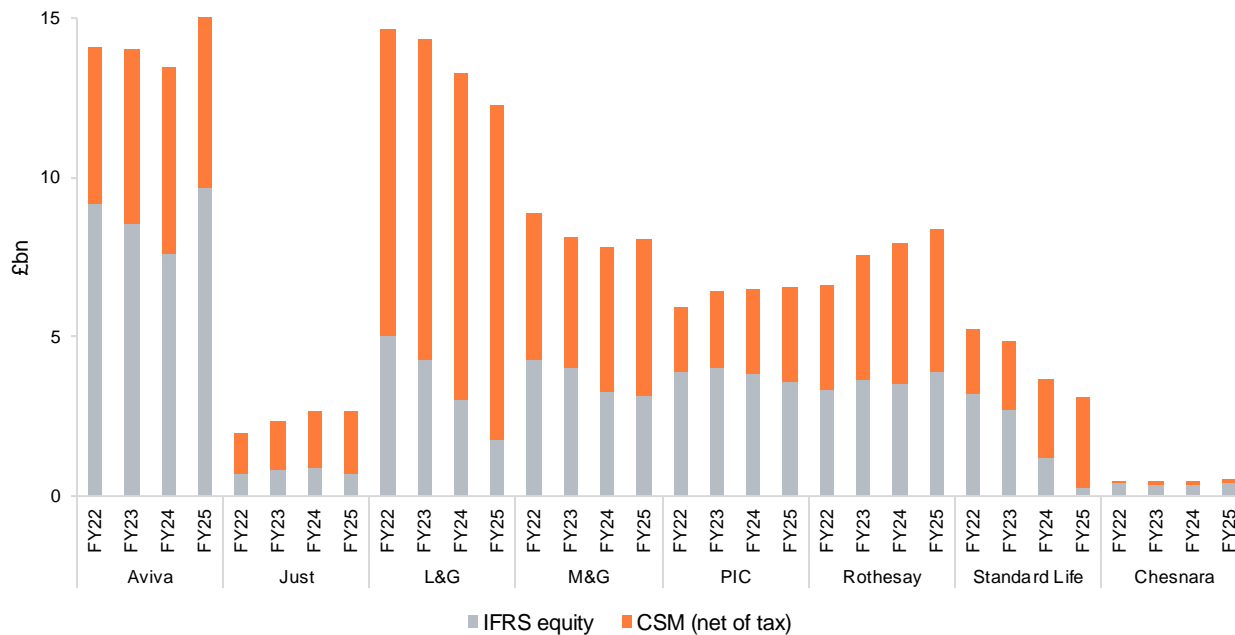
Key: ST = Short/annual performance metric; LT = Long term incentive plans; AOP = Adjusted Operating Profit; AM = Asset Management; AUM = Assets Under Management; NB = New Business; and S2 = Solvency II.

Note: Although not a financial measure, all insurers in the sample include a performance metric based on relative or absolute 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-profits funds. In addition, some insurers include the adjusted shareholder equity in IFRS-related return on equity or leverage ratio, with Standard Life in its 'Fitch leverage ratio' also including a measure of the policyholders' share of the with-profits estate.

Adjusted shareholder equity



Source: PwC analysis and interpretation of FY25 and related external disclosures (including prior years).

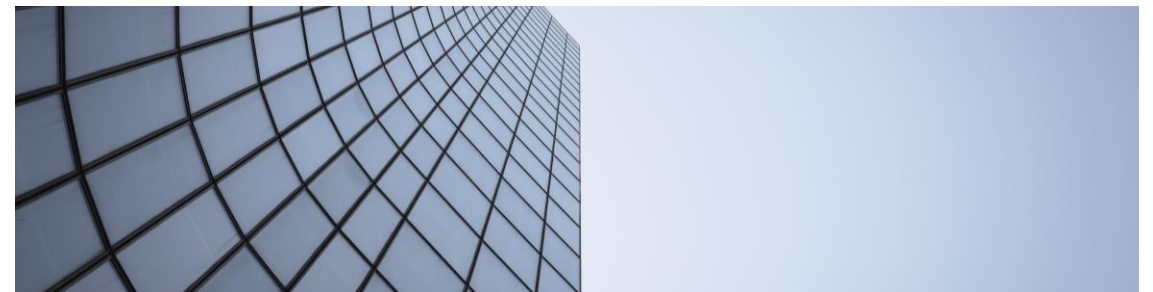
Notes: The chart presents a PwC-determined adjusted shareholder equity. To produce this: (a) Aviva, L&G, M&G and Standard Life IFRS 17 equity excludes preference shares, Tier 1 notes and non-controlling interests (where applicable), (b) PIC and Rothesay IFRS 17 equity excludes Restricted Tier 1 debt,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

Where adjusted shareholder equity has increased since FY22, this has typically been driven by growth in the CSM arising from new business volumes, with the exception of Aviva at FY25, which largely reflects the Direct Line acquisition. For others, share buy-backs and dividends have reduced equity.

The IFRS losses in recent years at Standard Life have resulted in a notable reduction in both adjusted and actual shareholder equity. Standard Life continues to note at FY25: *“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.**”*

At FY25, the life subsidiaries of Standard Life and M&G continue to report under UK GAAP, so IFRS-related deferral of profit is not a constraint on distributable earnings from these operations.

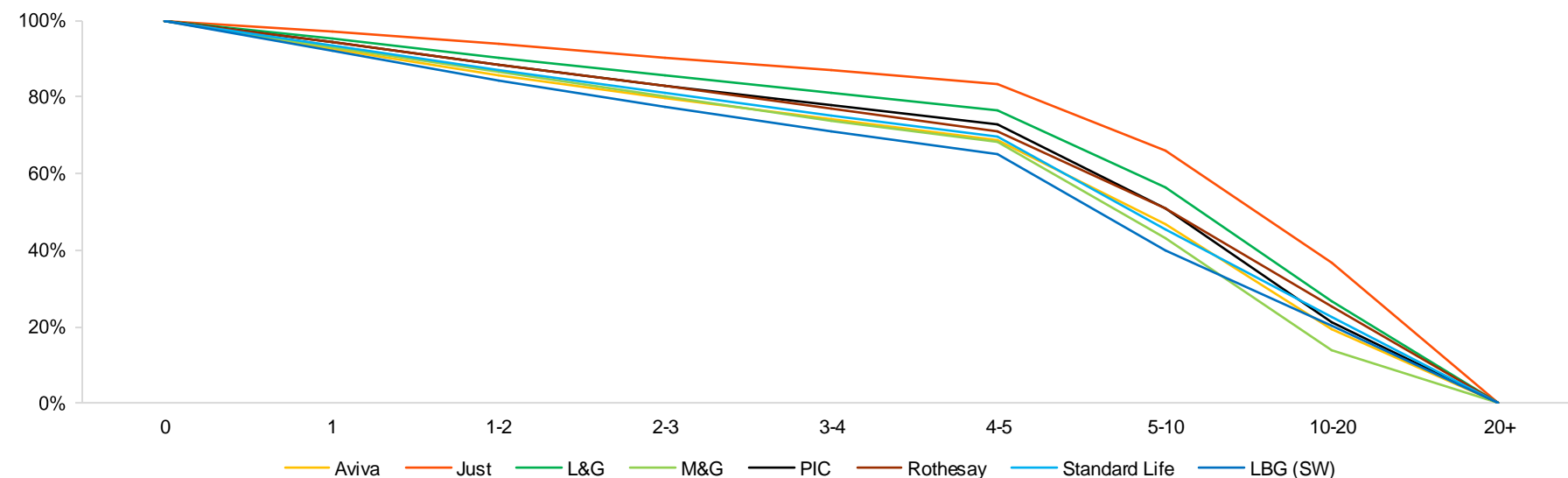
For a comprehensive understanding of the future of UK GAAP for life insurers, please refer to our [September 2024 publication](#).



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 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 FY25 disclosures showed a consistent emergence of future CSM compared to FY24 and FY23, with no substantive changes in the approach used by insurers. For a detailed analysis, refer to the Appendix.

Cumulative future net of reinsurance CSM emergence at FY25 (each year)



Source: PwC analysis and interpretation of FY25 and related external disclosures.

Excluding Just and LBG (SW), 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.8%, which can be significant given the 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 purposes of the chart, it is assumed that the CSM runs off in a straight line over this period for this insurer.
3. Rothesay, Standard Life and LBG (SW) include a final grouping of 10+ years. For the purposes of the chart, it is assumed that the CSM runs off evenly across the 10–20 and 20+ year periods.
4. Consistent with FY24, 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 (Annuities & Protection), 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.

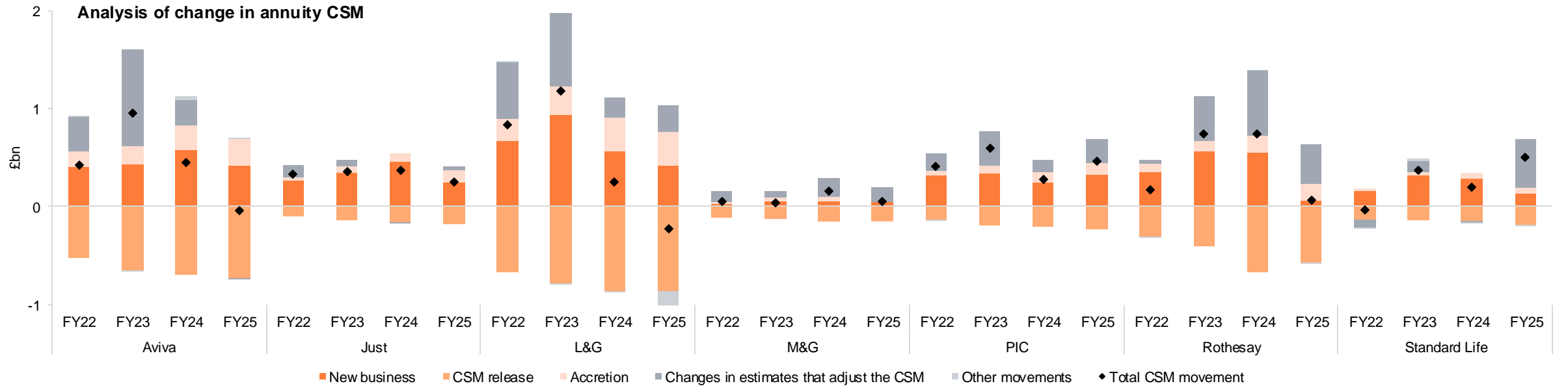
27%

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

(FY24: 26% and FY23: 24%)

Analysis of change in annuity CSM

Continuing our focus on annuities, the chart below presents the movement in annuity CSM, net of reinsurance, from FY22 to FY25, 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 seek to demonstrate its growth over time. FY25 is the first year in which a notable reduction in CSM is observed, which is not unexpected given the size of the CSM (and the consequent release each period) for some insurers. Prior to FY25, all insurers in the sample reported an increase in the CSM, 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.



Source: PwC analysis and interpretation of FY25 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:

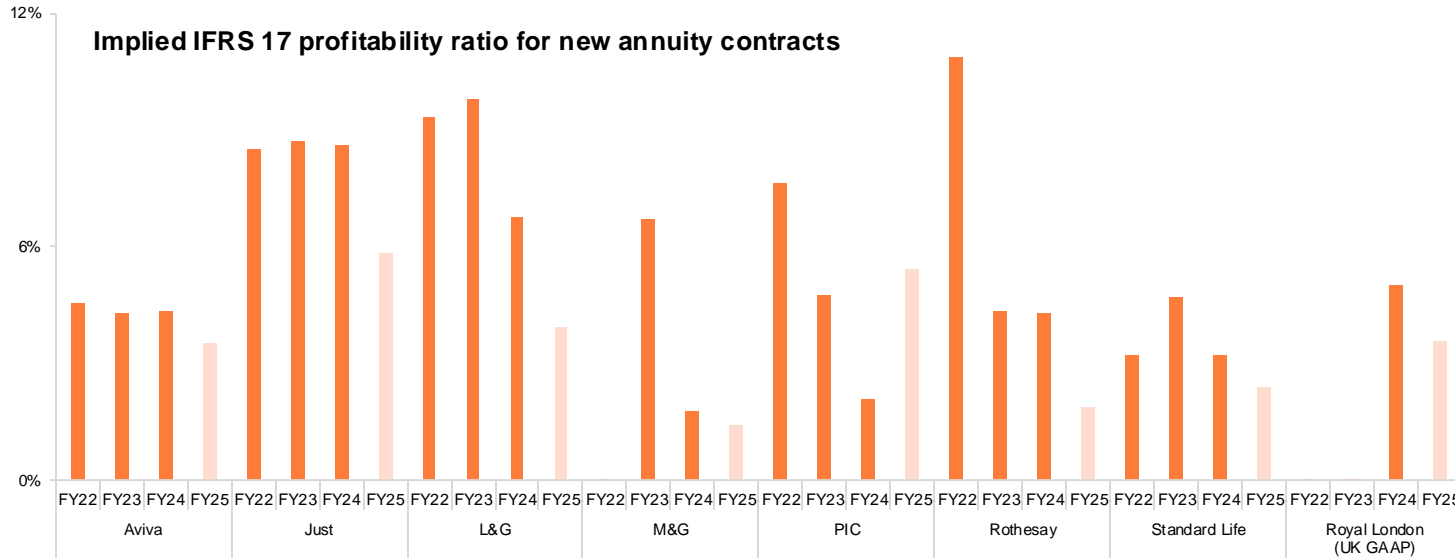
1. Aviva reflects the 'Life Risk' segment which includes protection contracts with annuities (as not split out separately). For M&G, the 'Annuity and other long-term business' disclosure group is presented; it is not clear what products other than annuities are included, and it is assumed that all reinsurance relates to this disclosure group. For Standard Life, the 'Retirement Solutions' segment is presented, and reinsurance movements are weighted in line with the proportion of the Retirement Solutions reinsurance CSM to the total reinsurance CSM (split by origin, FVA and FRA/new business).

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 differences for Aviva and L&G, and the effects of portfolio transfers, acquisitions and disposals for Aviva, L&G and Rothesay.

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

The IFRS 17 CSM offers a perspective on the relative profitability of new bulk and retail annuity business. The chart below presents the implied IFRS 17 profitability ratio for new bulk and retail annuity business from FY22 to FY25. This ratio is defined as the net of reinsurance new annuity business CSM, divided by the gross premium net of funded reinsurance. Certain assumptions have been applied for some insurers due to limitations in the information disclosed.



Source: PwC analysis and interpretation of FY25 and related external disclosures (including prior years).

Notes:

- Mix of business:** For Aviva, Just, L&G, M&G, Standard Life and Royal London, the analysis covers both bulk and retail annuity new business and, for L&G, this also includes overseas bulk annuities. Rothesay includes bulk annuities as well as acquired business. Scottish Widows (LBG) is excluded, as it no longer writes bulk annuities (only retail) following the sale of its back-book to Rothesay, with the associated Part VII transfer completed during 2025.
- Funded reinsurance:** Just, L&G and PIC disclose whether funded reinsurance is transacted for new business, while Rothesay explicitly states that it does not use funded reinsurance. Other insurers do not disclose their use of funded reinsurance and for these firms, it is assumed to be nil for new business. For FY25, an assumption has been made for PIC as to the size of funded reinsurance transacted.
- Royal London (UK GAAP):** Royal London prepares its financial statements under UK GAAP rather than IFRS. The disclosed UK GAAP value of new annuity business has been used to derive the profitability ratio.
- PIC onerous contracts (pre-reinsurance):** For PIC at FY24 and FY25, the new business CSM is reduced by the new business loss component (£76m and £12m, respectively). The FY24 profitability ratio would increase to c.4% when allowing for reinsurance entered into in 2025 in respect of 2024 new business. Consequently, the presented FY25 profitability ratio is elevated as a result of this reinsurance.

A clear reduction in the IFRS 17 profitability ratio is observed in FY25, which may reflect both increased market competition and prevailing economic conditions. For example, the increased use of gilt-based investment strategies over 2024/2025 may act to moderate the profitability ratio.

Comparisons of the IFRS 17 profitability ratio continue to be challenging for a number of reasons, including:

- In the bulk annuity market, insurers transact a wide range of scheme sizes and total annual premium volumes. For example, Rothesay, PIC and L&G typically transact the largest schemes, whereas Just has traditionally written higher volumes of smaller schemes, and M&G and Royal London are newer entrants.
- A mix of bulk and retail annuities is written by L&G, Aviva, Just and Standard Life.
- Accounting choices affect the measurement of new business CSM. For example, the choice of reference portfolio in setting the inception discount rate affects the extent to which future asset deployment is reflected in new business CSM versus recognised directly as profit in future periods.

As additional years of experience emerge, it will be interesting to observe how trends evolve. There is also continued innovation in the bulk annuity market, for example M&G's 'Value Share' annuity transaction in 2024 and its first with-profits BPA transaction in early 2026.

Refer to PwC's [Q1 2026 Pension Risk Transfer Insights](#) for a review of 2025 and perspectives on the 2026 bulk annuity market.

Discount rates

The tables present the actual or implied GBP illiquidity premium used by UK life insurers in discounting insurance contract liabilities at FY25, together with the FY24 comparative. 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.
- There continues to be limited disclosure of the illiquidity premium applied to new business each year, with only Just and PIC referencing new business discount rates.
- 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: FY25 IFRS illiquidity premium (LQP) and Solvency II matching adjustment (MA)

Insurer	IFRS LQP		Solvency II MA ³	
	FY25	FY24	FY25	FY24
Aviva ¹	c.160-170 bps	c.170-180 bps	124 bps	122 bps
Just ¹	c.190-200 bps	c.210-220 bps	156 bps	177 bps ⁴
L&G ¹	c.150 bps	c.160 bps	109 bps	127 bps
M&G ²	133 bps	149 bps	122 bps	142 bps
PIC	c.150 bps	c.170 bps	142 bps	165 bps
Rothsay	136 bps	137 bps	102 bps	108 bps
Standard Life	168 bps	169 bps	Not explicit	Not explicit

Other products: FY25 estimated illiquidity premium

Insurer	IFRS LQP	
	FY25	FY24
Aviva ⁵	With-profits: c.20-30 bps Protection: c.10-20 bps	With-profits: c.30-40 bps Protection: c.20-30 bps
L&G ⁵	Protection: c.80 bps	Protection: c.80 bps
M&G	With-profits: 37 bps	With-profits: 39 bps
Standard Life	With-profits: 40 bps (liquid) / 119-168 bps (illiquid)	With-profits: 20 bps (liquid) / 104-169 bps (illiquid)
LBG (SW) ⁶	Whole of life: 27 bps	Whole of life: 24 bps
Chesnara ⁷	With-profits: 0 or 24bps	With-profits: 0 or 24bps

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

- As part of the PRA's Solvency II reforms, the matching adjustment (MA) attestation process and voluntary additions to the fundamental spread (FS) were implemented for FY24.
- At FY25, there are no explicit disclosures in the Report & Accounts and SFCR on the financial impact of the voluntary additions to the FS. Our market experience suggests that the aggregate voluntary additions to the FS applied by insurers were typically in the low single-digit basis points.

Source: PwC analysis and interpretation of FY25 and related external disclosures (including the SFCR).

Notes:

1. Inferred by comparing annuity discount rate curves to risk-free (Aviva & Just) or from graph of discount rates (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, the Solvency II MA is disclosed in their Analyst Pack: "At 31 December 2025 the Matching Adjustment for UK Sterling was 109 basis points (31 December 2024: 127 basis points) after deducting an allowance for the Fundamental Spread equivalent to 37 basis points (31 December 2024: 45 basis points)."
4. For PIC, Solvency II MA is disclosed in their Business Review: 1.415% (FY25) and 1.648% (FY24).
For the others, the MA is in the SFCR (excluding Standard Life).
Additionally for Aviva, the MA for 2025 new business is disclosed in their Group Report & Accounts as 135bps (FY24: 122bps).
5. The Just SFCR notes the voluntary addition to the fundamental spread: "1.3bps and 0.5bps (2024: 2.6bps and 0.3bps) respectively (unaudited) for JRL and PLACL as at YE25."
6. Inferred by comparing the discount rate curves to risk-free (Aviva) or from the graph of discount rates (L&G).
7. Lloyds Banking Group (Scottish Widows) notes at FY25: "Included within Protection and Other is whole of life protection, which has an additional illiquidity premium of 27bps." with an equivalent statement at FY24.
8. Chesnara applies the Solvency II volatility adjustment as the IFRS LQP premium for with-profits contracts accounted for under the General Measurement Model (and nil otherwise).

Continuing impact from the transition to IFRS 17

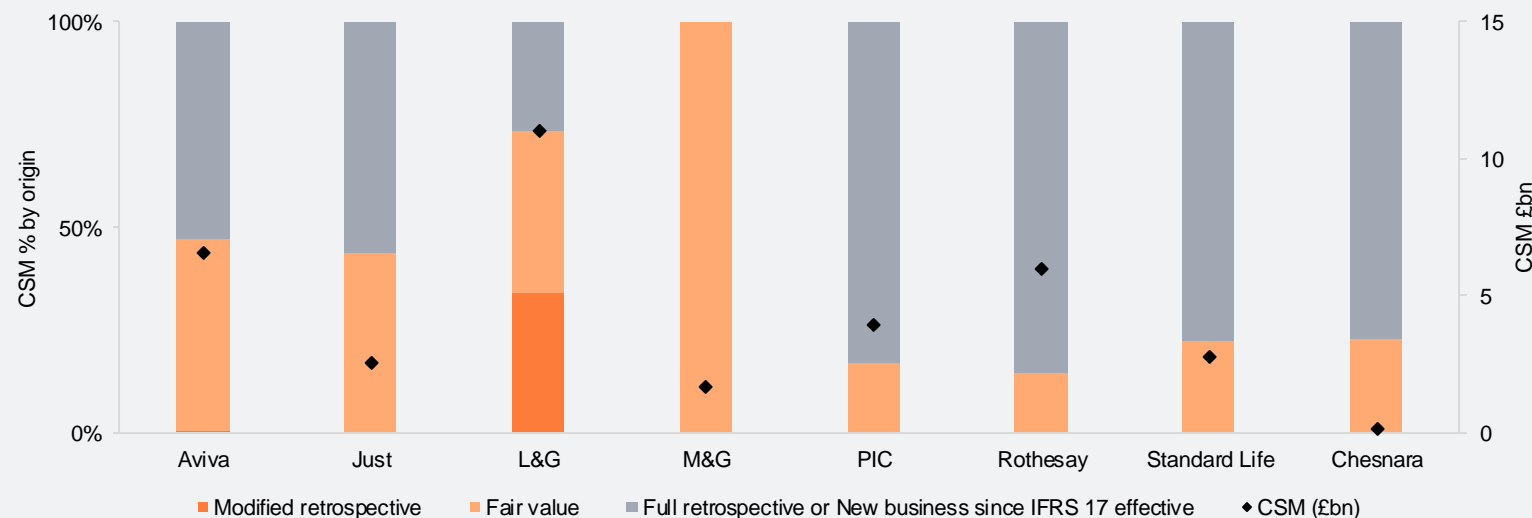
As we noted in our FY23 [publication](#) on IFRS 17 disclosures, UK life insurers applied a range of permitted approaches when determining the opening (transition) CSM, resulting in differing outcomes. This was particularly evident for annuities and with-profits contracts. For annuities, the establishment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

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

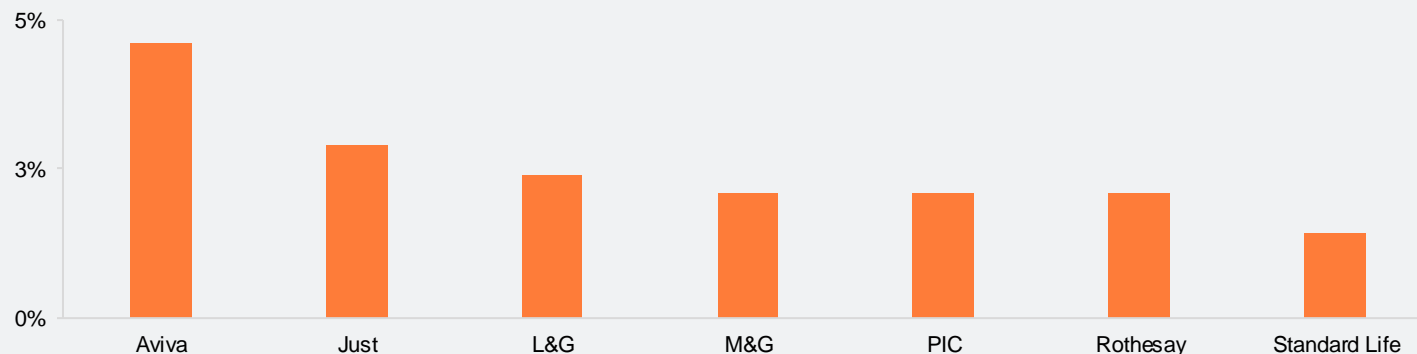
- **Around 36% (or £12bn) of the annuity CSM (net of reinsurance) at FY25 relates to contracts transitioned using the fair value approach (now three years ago!).** This method involved significant judgement, with differing assumptions potentially leading to variation in opening CSM levels and future profit profiles across peers with similar annuity portfolios. Over time, the third category of CSM, covering fully retrospective transition and new business post-implementation of 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 FY25 net of reinsurance CSM by origin¹



Estimated 2025 locked-in rates for annuities transitioned under the fair value approach²



Source: PwC analysis and interpretation of FY25 and related external disclosures.

Notes:

1. Aviva: 'Life Risk' segment which includes protection contracts with annuities (as not split separately). M&G: Gross CSM in the third category is offset by reinsurance held CSM.
2. For Just and M&G, the locked-in rates for annuities transitioning under the fair value approach were disclosed at FY23, and the rate for 2025 is presented. For other insurers, the rate is calculated as: (Impact on the CSM from insurance finance income/expense over 2025) / (Opening 2025 CSM).

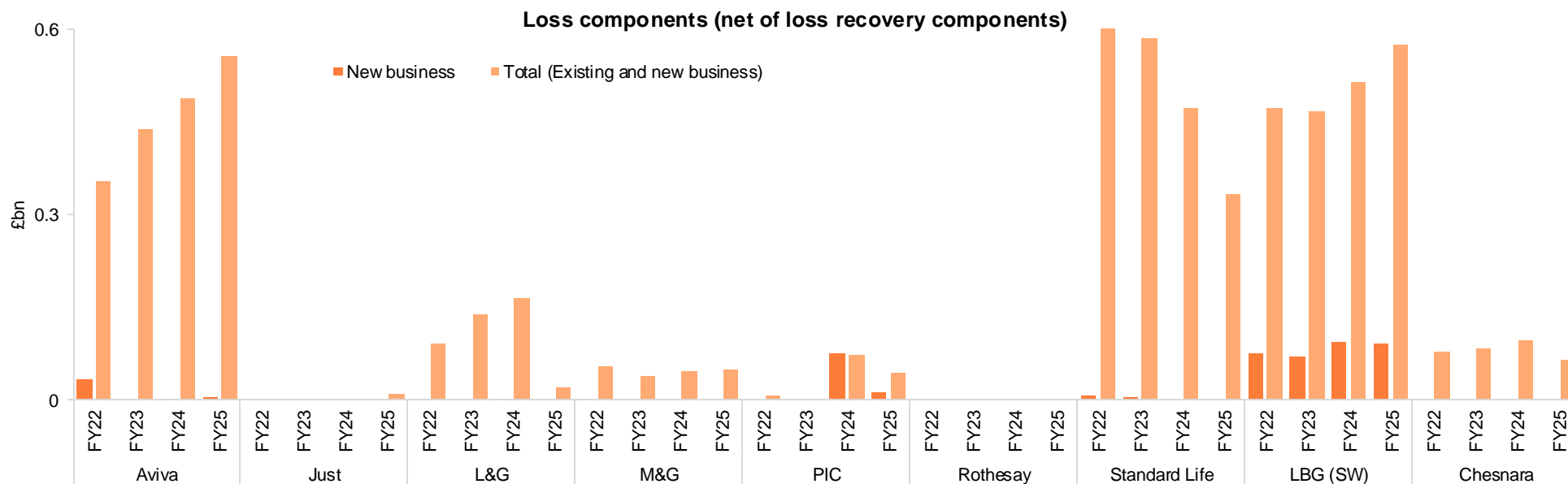
Extent of onerous contracts

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 FY25 and related external disclosures (including prior years).

Note: The loss component for Just at FY25 arises only in the Partnership Life Assurance Company Limited subsidiary accounts and not the Just Group plc accounts.



Key observations

In 2025, UK life insurers wrote minimal onerous business, suggesting that IFRS outcomes may influence pricing to some extent. The total loss components recognised at FY25 are also small relative to the CSM for most insurers, with some insurers reporting none. We provide a brief commentary on the loss components that are present.

1

Aviva

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

2

PIC

The FY25 and FY24 new business loss components arose on new bulk annuity contracts that were entered into close to each year-end and before reinsurance arrangements were in place. At FY25, consistent with FY24, PIC notes: *'These contracts were 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.'*

3

Standard Life

The largest loss component is for with-profits contracts and originally arose at implementation of IFRS 17.

4

LBG (Scottish Widows)

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

5

Chesnara

The loss component arises in both the UK and Netherlands businesses.

03

The UKEB's post-implementation review of IFRS 17

In this section, we explore the UK Endorsement Board's post-implementation review of IFRS 17.



The UKEB Plan

The UK Endorsement Board (UKEB) is required under legislation to conduct a Post-Implementation Review (PIR) of any IFRS standard the adoption of which has resulted in a ‘significant change in accounting practice’, and to publish a report on the findings within five years of adoption. IFRS 17 was the first accounting standard adopted following the establishment of the UKEB and clearly meets the threshold for a significant change. Accordingly, the UKEB’s PIR of IFRS 17 is required to be completed no later than 1 January 2028.

The IASB has not indicated when it expects to undertake its own PIR of IFRS 17. However, experience from recent standards, such as IFRS 9, suggests that the IASB typically waits until most jurisdictions have accumulated at least two years of application experience. On this basis, an IASB PIR would not be expected before 2027. Given the scale and fundamental nature of the changes introduced by IFRS 17, the IASB may allow a longer period to enable a greater body of experience across preparers and users.



It is now clear that the UKEB post-implementation review of IFRS 17 will precede the IASB’s review.

UKEB IFRS 17 PIR activities and timeline

Phase 1

PIP Issued (March 2026)

Initial UKEB research and consultation

Phase 2

Outreach based on RFI and external report



⁽¹⁾ The UKEB Due Process Handbook requires the conduct of a Request For Information (RFI) process, typically involving a 90-day consultation period. The RFI sets out the matters on which the UKEB is seeking feedback, together with a rationale for requesting the information and any initial assessment by the UKEB of the impact of the international accounting standard. It also explains the reasons for undertaking the review.

Following its February 2026 Board meeting, the UKEB published its [Project Initiation Plan \(PIP\)](#) for the IFRS 17 PIR on 4 March 2026. The PIP follows the process set out in Section 8 of the UKEB [Due Process Handbook](#) (December 2022), together with the relevant UK Government guidance.

The purpose of the UKEB PIR of IFRS 17 is stated in paragraphs 17 and 18 of the PIP:

“17. The primary focus ... is to assess whether the endorsement and adoption of IFRS 17, for application by UK companies, **had the intended effect**. When adopting a standard for use in the UK, the UKEB assesses whether:

- a) the standard meets the technical accounting criteria of understandability, relevance, reliability and comparability;
- b) the use of the standard is likely to be conducive to the long term public good in the UK; and
- c) the standard is not contrary to the principle that the accounts must give a true and fair view.

18. The UKEB will take a holistic approach ... consistent with its approach to the original endorsement The UKEB will consider the **standard as a whole**, including the disclosures it requires and its interaction with other UK-adopted international accounting standards. As a minimum, the following questions will be considered:

- a. The extent to which UK users and other stakeholders **consider the information provided by the application of IFRS 17 useful** (e.g. whether users find the information useful, comparable, relevant, etc.).
- b. Whether the adoption of IFRS 17 for use in the UK led to **any observable capital market effects**.
- c. The extent to which there are issues that **could be addressed through a future PIR of IFRS 17 by the IASB**.
- d. The prevalence and order of magnitude of **implementation costs** among UK preparers, both one-off and ongoing.
- e. Whether any other intended or unintended wider economic effects could be observed in the UK”

And importantly, the UKEB notes in the PIP (paragraph 8) that the PIR “**will not alter or affect the endorsement and adoption decision made by the UKEB in 2022.**”

The timeframe for the PIR is set out in the presented timeline below.

What could be considered by the UKEB?

There are a number of perspectives from which IFRS 17 could be assessed, including consistency of approach and interpretation, the resulting mismatches, the 'gap' between the Adjusted Operating Profit and IFRS profit, opportunities for operational simplification, and disclosure-related matters. In this section, we set out a number of areas that could be considered as part of the UKEB PIR.

Technical topics from endorsement

During the adoption of IFRS 17, the UKEB undertook consultation and published its final [Endorsement Criteria Assessment](#) (ECA) in May 2022. The assessment considered a range of technical topics, with several being particularly relevant for life insurers. These topics are stated in the table below.

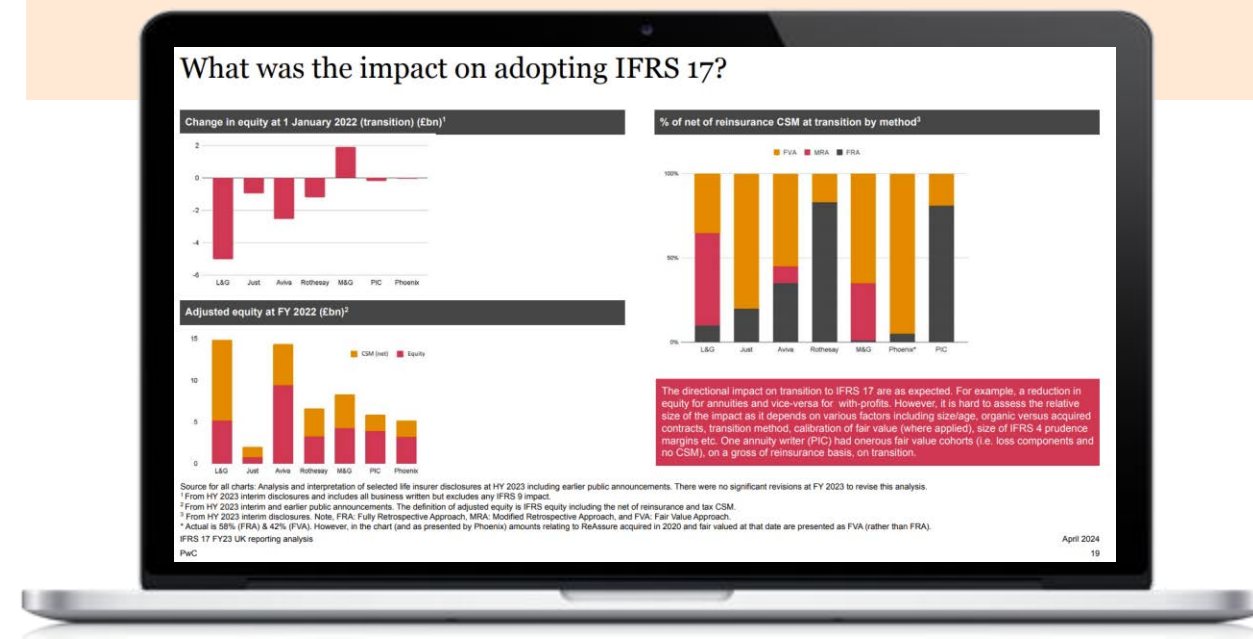
Priority issues (Main body of ECA)	Other topics (Appendix B of ECA)
Profit recognition – Contractual Service Margin allocation for annuities	Risk adjustment for non-financial risk
Discount rates	Interest accretion at the locked-in rate for CSM under the General Measurement Model
Grouping insurance contracts: profitability buckets and annual cohorts	Recognition of income from reinsurance to match losses from onerous underlying contracts
With-profits: inherited estates	Contracts that change nature over time
	Other comprehensive income option
	Transition requirements
	Other VFA topics: <ul style="list-style-type: none"> • Ineligibility of reinsurance contracts for VFA • Prohibition of retrospective application of the risk mitigation option • Eligibility for VFA when there are mutualised cash flows • Non-profit contracts written by a with-profits fund.

It would be reasonable to expect that the UKEB will revisit these topics as part of the PIR.

The impact on life insurers' results at transition to IFRS 17

The impact on the balance sheet and equity for UK life insurers at the transition to IFRS 17 (together with IFRS 9) as at 1 January 2022 was significant. This is illustrated in our [FY23 UK IFRS 17 disclosures](#) publication, an extract from which is shown below.

As can be observed, UK life insurers adopted a range of permitted approaches when determining the opening (transition) CSM, leading to differing outcomes across the market. This was particularly evident for annuity and with-profits business. For annuities, the establishment of the CSM resulted in varying reductions in shareholder equity. In contrast, with-profits contracts often saw increases in equity, reflecting for the first time the recognition of the shareholder's share of surplus assets within with-profits funds. The impacts arising from transition, and the underlying judgements applied, are now over four years old; however, their effects will persist over the lifetime of the contracts written prior to 1 January 2022. This point was considered earlier in this publication ([Continuing impact from the transition to IFRS 17](#)).



Source: PwC [FY23 UK IFRS 17 disclosures](#) publication.

What could be considered by the UKEB? (continued)

Comparison of Adjusted Operating Profit (AOP) to IFRS profit

In our [FY24 IFRS 17 publication](#) (April 2025), we considered potential enhancements to IFRS 17 reporting, with a particular focus on the nature and rationale for the common components of non-operating profit that arise specifically under IFRS 17. These components include:

- **Hedging mismatches**, arising where insurers hedge on a Solvency II regulatory basis rather than an IFRS basis. For example, certain elements of the Solvency II position, such as the SCR capital and future profits relating to non-participating investment contracts, may be partially hedged, but are not recognised under IFRS.
- **CSM-related effects**, including the total CSM for some insurers, or specific mismatches arising from the locked-in nature of the annuity CSM. This includes situations where backing assets are measured at fair value through profit or loss, and the effects of changes in demographic assumptions (such as longevity) when the CSM is unlocked.
- **Mismatches involving non-profit contracts within with-profits funds**, where these contracts are accounted for under IFRS 17, while interactions with with-profits contracts are measured at fair value.
- **Reinsurance differences**, including delayed recognition of reinsurance arrangements relative to new underlying contracts, and other situations where alignment between underlying contracts and reinsurance does not occur.

These components of non-operating profit continue to be relevant at FY25, as evidenced by our earlier analysis of 2025 AOP. It is also notable that many of these components were considered by the UKEB as part of the original endorsement process.

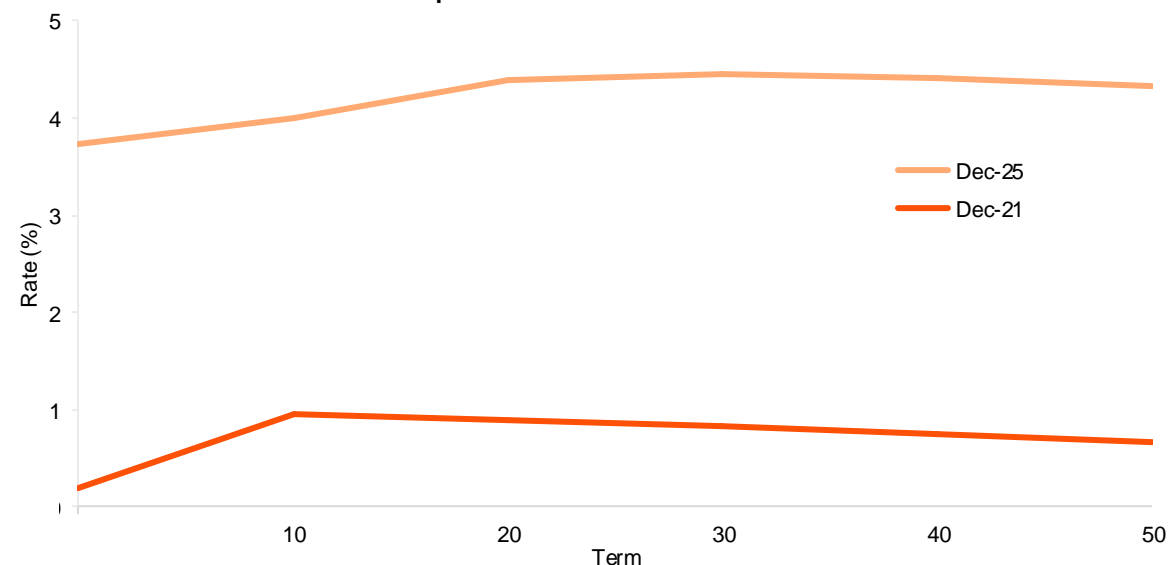
The widespread use of AOP by UK life insurers as a key performance metric for remuneration demonstrates that IFRS remains central to financial reporting. However, the scale and extent of adjustments from reported IFRS results, more pronounced than was typically the case under IFRS 4, arguably highlight ongoing challenges with IFRS 17 outcomes for UK life insurers. There appears to be an acceptance by some insurers of volatility in IFRS profit and shareholder equity, with a greater emphasis on cash generation, capital strength and dividend capacity.

Why is the IFRS 17 annuity locked-in mismatch so noticeable?

This is primarily driven by changes in interest rates and illiquid asset spreads since the adoption of IFRS 17. A large proportion of annuity business transitioned to IFRS 17 using a fair value assessment at 1 January 2022 (effectively 31 December 2021), and most (although not all) UK insurers determined the locked-in rate for this business (for CSM purposes) at this date.

As observed from the chart below, risk-free rates increased by approximately 300bps or more by 31 December 2025, even before considering movements in illiquid asset spreads over the same period. As a result, the difference between current and locked-in discount rates used for the best estimate liability and CSM respectively is now very significant. Where retrospective approaches were used to transition to IFRS 17, the resulting difference depends on the rates locked in during the year in which the business inceptioned.

GBP swap curve since the transition to IFRS 17



Source: PwC analysis and interpretation of publicly available market data.

What could be considered by the UKEB? (continued)

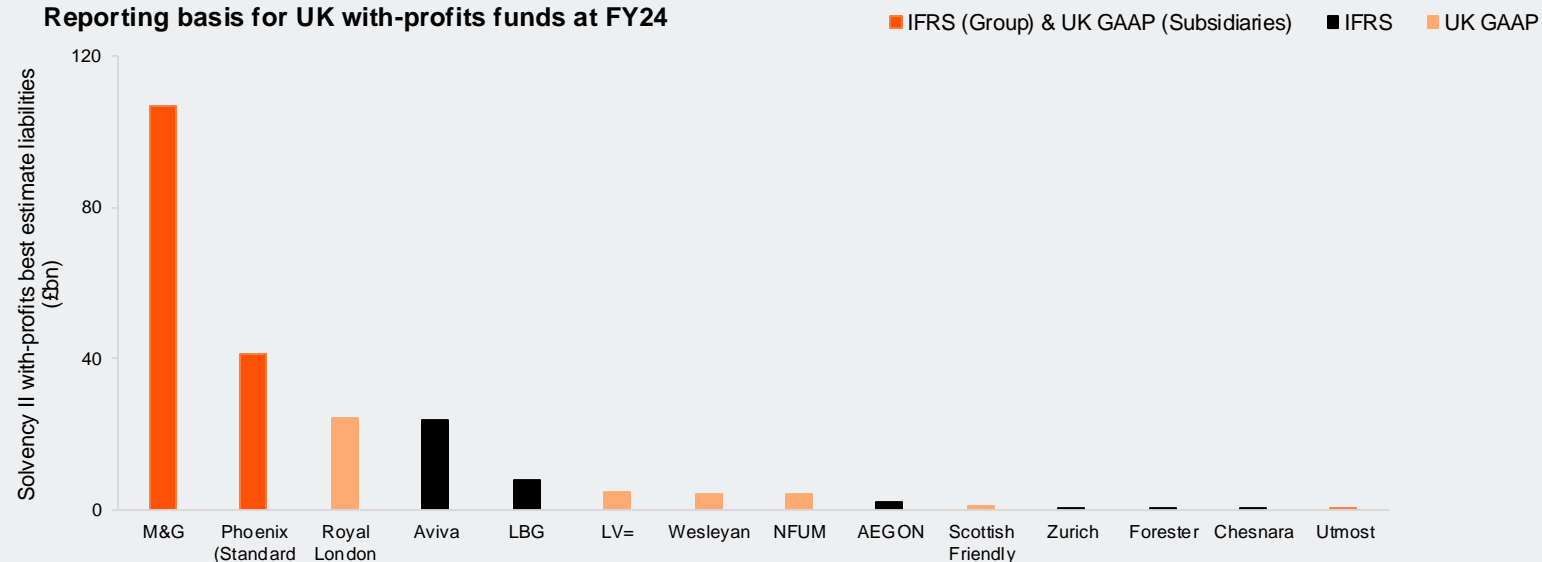
The usage of IFRS 17 by UK life insurers

It is also relevant to consider the impact IFRS 17 has had on the choice between IFRS and UK GAAP (where permitted) for financial reporting by UK life insurers. In the period leading up to the effective date of IFRS 17, a number of insurers reverted to UK GAAP, specifically the Financial Reporting Standard (FRS) 103 Insurance Contracts issued by the Financial Reporting Council (FRC). For example:

- **Royal London and LV=** transitioned from IFRS to UK GAAP in the years prior to IFRS 17 adoption (FY19 and FY22, respectively). Similar reasons were noted: ‘... UK GAAP is a more suitable basis for a UK mutual than IFRS ... allowing transparency of our financial performance and being widely recognised and understood by readers of accounts.’ (Extract from Royal London FY19 report and accounts).
- **Most life insurance subsidiaries within the Standard Life Group** (Phoenix at the time) transitioned from IFRS to UK GAAP in their FY23 accounts, with a transition date of 1 January 2022, representing the final opportunity to do so prior to the adoption of IFRS 17. Consequently, IFRS 17 was implemented only at the Group consolidated level.
- **Canada Life UK**, which writes non-profit business only, changed its accounting policy in FY23 from a modified Canadian Asset Liability Method under IFRS 4 to UK GAAP using an adjusted Solvency II approach, and explicitly noted this as being ‘due to the implementation of IFRS 17’.

Overall, there is now reduced use of IFRS among UK life insurers following the adoption of IFRS 17. In particular, all UK mutual insurers currently report under UK GAAP. There are likely to be several reasons for this position, including operational simplicity, implications for distributable reserves and taxation, and the challenges associated with applying IFRS 17 to UK with-profits business.

Reporting basis for UK with-profits funds at FY24



Source: PwC analysis and interpretation of FY24 SFCR disclosures.

To illustrate the use of IFRS 17 for with-profits contracts, the chart presents Solvency II best estimate liabilities for with-profits business across leading writers (both proprietary and mutual), together with their accounting basis at FY24. On this basis, approximately 85% of insurers apply UK GAAP where permissible. The Prudential Assurance Company Limited, the life insurance subsidiary of M&G plc, has consistently applied UK GAAP, irrespective of the implementation of IFRS 17.

Further analysis on the accounting for mutual insurers under IFRS 17 is provided in the Appendix. A comprehensive understanding of the future of UK GAAP for UK life insurers can be found in our publication: [“Is it time to start discussing the future of UK GAAP for life insurers?”](#) (September 2024).

What could be considered by the UKEB? (continued)

The European dimension and annual cohorts

The European Union (EU) amended IFRS 17 on adoption (“EU-IFRS 17”), as set out in [Commission Regulation \(EU\) 2021/2036](#). As a result, the requirement to apply annual cohorts ‘for intergenerational-mutualised and cash flow matched contracts’ is optional. In the UK, this option would be particularly significant, as it would result in annual cohorts not applying to annuities (where included within a Solvency II matching adjustment portfolio) or to with-profits contracts (due to their discretionary participation features).

The European Commission (EC) is required to review this optional EU exemption by 31 December 2027, which aligns with, albeit is unrelated to, the timing of the UKEB PIR. At this stage, the approach the EC will adopt as part of this review, and any potential linkage to the IASB PIR, is not clear.

In its October 2024 [report](#), the European Securities and Markets Authority (ESMA) noted that 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 2025, consistent with 2024, we observed that approximately 50% of leading insurers in Spain (by number) chose not to apply annual cohorts, instead using a range of weighting approaches to determine the locked-in discount rate.

UK life insurers have already invested in systems and processes to track annual cohorts as part of implementing IFRS 17. As a result, any future relief may be viewed as coming too late to deliver material operational benefits, except potentially for new market entrants. However, over time, the volume and granularity of data required to lock in annual cohorts for annuities will continue to increase, which may bring renewed focus on this requirement.

And finally, there are several other potential questions and topics that could be explored, including ...

- **Variability in annuity CSM amortisation:** Is there too much diversity in practice in the approach to the annuity CSM amortisation, for example, in the weighting between insurance and investment-return services for deferred annuities?
- **Complexity of the CSM mechanism:** Accounting and actuarial data requirements were among the most significant challenges during IFRS 17 implementation and continue to be so post-implementation. Could simplification of the CSM, particularly in how it is unlocked for changes in estimates and experience, make reporting operationally easier?
- **Units of account:** Could the required groups of contracts (units of account) under IFRS 17 be simplified, for example, the need to track two separate profitable groups?
- **Extent of disclosure reconciliations:** The volume of disclosure reconciliations required under IFRS 17 is notable when reviewing insurers' financial statements. Could users' views on the usefulness of these reconciliations be assessed, with a view to refining or reducing the volume required?
- **Specific disclosure considerations:**
 - Could disclosures relating to the top-down discount rate used for UK annuities be enhanced, given the significance of the judgement involved? For example, should insurers be required to disclose the implied illiquidity premium and provide greater transparency over the selected reference portfolio(s), both at new business point-of-sale and for the portfolio in aggregate at each valuation date?
 - How useful is the risk adjustment confidence interval disclosure as a measure of comparability between insurers?
 - Would separate disclosure of insurance and reinsurance receivables, payables and deposits improve transparency?
 - Would greater standardisation of the scale and methodology to determine sensitivities, including alignment with Solvency II sensitivities where relevant, be beneficial?

Closing thoughts



The UKEB PIR will be the first substantive review of IFRS 17, and we look forward to engaging with the UKEB as the PIR progresses!

The 26-year journey from April 1997, when the IASC (a precursor to the IASB) first began work on an insurance accounting project, to 1 January 2023, the IFRS 17 effective date, was a very long one, marked by numerous twists, turns, compromises and delays. Given the extensive history and the significant cost and effort to implement IFRS 17, reopening IFRS 17 in any substantive way may be a step too far for many stakeholders. Consistent with experience from recent IASB PIRs (for example IFRS 9 and IFRS 15), significant changes to IFRS 17 arising from a PIR are perhaps unlikely.

Looking further ahead, the completion of the UKEB PIR by the end of 2027 may in turn prompt the FRC to start considering a reassessment of UK GAAP for insurers.



04

Wider financial reporting developments

In this section, we explore the implications of IFRS 18, the IASB's recent risk mitigation accounting exposure draft, the potential return of US GAAP reporting for UK life insurers, and other notable observations, including Aberdeen's accounting for its landmark Stagecoach transaction.



Welcoming IFRS 18!

Introducing IFRS 18

IFRS 18 *Presentation and Disclosure in Financial Statements*, published in 2024, replaces IAS 1 *Presentation of Financial Statements* from 1 January 2027, with a requirement to restate comparative information. As a result, it is now firmly on the horizon for UK life insurers. The new standard does not affect the recognition or measurement of items in the financial statements (including those accounted for under IFRS 17), but it will change certain aspects of presentation and disclosures. During 2025, [IFRIC confirmed](#) the scope of the requirement to disclose expenses by nature in IFRS 18, which may have operational implications for some insurers.

There are at least two notable IFRS 18 points for UK life insurers as set out in the adjacent columns.

In early April 2026, PwC published illustrative consolidated financial statements applying IFRS at 31 December 2025 (non-sector-specific), on the basis of early adoption of IFRS 18. These can be downloaded from PwC Viewpoint [here](#).

IFRS operating profit

IFRS 18 introduces a prescribed structure for the income statement, comprising defined categories and required subtotals. There are five categories (operating, investing, financing, income taxes and discontinued operations), with the first three being typically the most significant. An operating subtotal (in addition to IFRS profit) is required to be presented on the income statement.

For insurers, the income and expenses arising from insurance contracts (IFRS 17) and non-participating investment contracts (IFRS 9) are included within the operating category. This reflects that insurers' main business activities may involve investing in assets or providing financing to customers. There are also additional complexities in relation to certain investments in associates and joint ventures.

It is expected that IFRS operating profit will be different from the Adjusted Operating Profit (AOP) metric headlined today by UK life insurers.

Management-defined Performance Measures (MPMs)

MPMs are defined in IFRS 18 as a subset of 'Alternative Performance Measures' (APMs) or non-GAAP measures (such as KPIs) disclosed by entities. An MPM is a subtotal of income and expenses that: (a) is used in public communications outside the financial statements; (b) communicates an aspect of the financial performance of the entity as a whole; and (c) is not specifically required to be presented in an IFRS Standard or is otherwise explicitly excluded from the scope of IFRS 18. It is expected that certain non-IFRS financial measures commonly used by UK life insurers, such as the Solvency II coverage ratio and operating surplus, would not qualify as MPMs.

Where MPMs are identified, IFRS 18 requires them to be disclosed within the financial statements in a single note, including a reconciliation to the most comparable IFRS-specified subtotal.

For UK life insurers, this will effectively bring a subset of APMs or KPIs currently disclosed into the audited financial statements. However, the exclusion of certain Solvency II-based measures is helpful given their prevalence, and most listed UK life insurers already provide a reconciliation between AOP and IFRS profit, albeit to varying levels of detail.

Could risk mitigation accounting help UK life insurers?

The IASB published a Risk Mitigation Accounting (RMA) [Exposure Draft](#) in December 2025, with the comment period open until 31 July 2026 and field testing running until November 2026. The model has been in development since the original discussion paper issued in 2014.

The overall objective of RMA is set out in paragraph 7.13:

'The objective of risk mitigation accounting is for financial statements to represent the economic effect of an entity's risk management activities if the entity manages repricing risk on a net basis', where:

- Repricing risk is defined as: *'A type of interest rate risk that exposes an entity to variability in the cash flows from, and the fair value of, financial instruments, arising from differences in: (a) the timing of when financial instruments reprice to benchmark interest rates; and (b) the amount of financial instruments that reprice in a particular period.'* (Appendix A Defined Terms); and
- Managing repricing risk on a net basis means that *'... an entity calculates the aggregated effect of repricing differences arising from financial assets, financial liabilities and future transactions with fixed and variable interest rates'* (paragraph 7.1.1).

RMA originates from the banking sector, where existing hedge accounting models are considered not to reflect risk management practices, in particular where repricing risk is managed on a net basis by aggregating and dynamically managing open exposures, such as mortgages and loans (interest-earning) and customer deposits (interest-bearing).

RMA is a voluntary accounting model designed to replace the existing policy choice of applying either the IFRS 9 or the IAS 39 hedge accounting requirements. The model does not apply to financial instruments measured at fair value through profit or loss or to insurance contract liabilities. As such, no immediate application would be expected for UK life insurers. However, the IASB is actively seeking engagement from the global insurance industry, including a specific question in the Exposure Draft (Question 11) relating to entities issuing insurance contracts, and field testing is open to insurers.

We would encourage UK insurers to participate in the exposure process!

How do UK life insurers hedge financial risk?

UK life insurers typically hedge financial risks (e.g. interest rate and equity risks) on a Solvency II basis rather than under IFRS, although, as noted earlier in this publication, some entities do maintain a degree of IFRS focus. Examples include the use of amortised cost asset portfolios to partially back annuity (General Measurement Model) CSM and the application of the IFRS 17 risk mitigation option for with-profits (VFA) business. Hedging Solvency II balances, such as solvency capital requirements and future profits on non-participating investment contracts, can result in IFRS mismatches where only one side of the hedging arrangement is recognised. In addition, there are direct IFRS 17-related mismatches, most notably arising from the annuity CSM being measured using locked-in rates and the differential between those locked-in rates and current rates, which can result in counterintuitive impacts on IFRS profit. The effects described in this paragraph can be observed within the non-operating profit reported by UK life insurers.

Consistent with this, the UKEB Financial Instruments Working Group roundtable on RMA in January 2026 [noted](#) potential *'challenges to overcome to help ensure the proposals meet the objective of ... representing the economic effect of an entity's risk management activities ... (c) UK insurers typically hedge their capital position on a regulatory basis and, unlike UK banks, their IFRS financial statements do not form the starting point for their regulatory position.'* This point is also reflected in the proposed [UKEB draft comment letter on RMA](#) discussed at the March 2026 Board meeting.

The return of US GAAP in the UK?

The significant changes in ownership of UK life insurers in the second half of 2025 could, from a financial reporting perspective, ultimately result in something of a 'revival' of the application of US GAAP, the US accounting standard, amongst UK life insurers.

Athora (PIC), Brookfield (Just Group plc) and JAB Insurance (Utmost Life and Pensions) already report under US GAAP to some extent, although relative materiality may influence the extent to which US GAAP is adopted for their new UK operations. In addition, where IFRS is applied by the acquirers, for example Athora, there will also be an IFRS alignment exercise which may provide insights into differing interpretations of IFRS 17.

Accordingly, when evaluating IFRS 17, it may also be relevant to consider US GAAP, given its potential re-emergence in UK life insurance reporting.



When were changes made to US GAAP?

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 introduced revisions, some of which were significant, to the accounting framework for US life insurers. LDTI became effective from 1 January 2023 for SEC filers and from 1 January 2025 for other entities. As a result, the length of post-implementation experience under LDTI is broadly comparable to that of IFRS 17.



Applying US GAAP to UK products

There is currently limited experience of applying LDTI, or US GAAP more broadly, to UK life insurance products. However, key features of applying LDTI to UK annuities would be expected to include:

- A single deferred profit liability (DPL) with no explicit split between a risk adjustment and a CSM, which may be operationally simpler than IFRS 17.
- A full retrospective 'catch-up' when the DPL is unlocked (for example for changes in longevity assumptions), with remeasurement from inception. The DPL is adjusted at least annually over the retrospective period to reflect actual experience from inception to the remeasurement date and also to reflect revised cash flow assumptions. This may be more onerous than the accounting for the CSM under IFRS 17.
- Amortisation of the DPL based on discounted expected future benefit payments, with no explicit concept of services, and interest accreted at inception discount rates.
- A locked-in discount rate is applied to the annuity liabilities that is not directly linked to the actual assets held, unlike in IFRS 17 where, under a top-down approach, the reference portfolio is typically asset-linked. Any changes in the locked-in rates are recognised in Other Comprehensive Income (OCI) and are also not directly linked to the assets held.

While the US GAAP accounting for annuities differs from IFRS 17, there are similarities in the overall objective of spreading profit over the lifetime of the contract. Applying US GAAP to more complex UK products, such as with-profits business, would require careful consideration.

In addition, US GAAP provides an option to elect irrevocably to apply a fair value approach (ASC 820/825 Fair Value Option), thereby avoiding the application of LDTI. Changes in the fair value of the liability are recognised in profit or loss, except for changes in own credit (non-performance) risk, which are recognised in OCI. This option could be considered by UK insurers seeking to apply US GAAP.



Interesting UK events over 2025 ...



Aberdeen – Accounting for a ‘landmark transaction’!

In December 2025, Aberdeen entered into a ‘Flexible Apportionment Arrangement’ to become the legal sponsoring employer of the Stagecoach Group Pension Scheme (SGPS) – the first transaction of this nature in the UK market! In exchange for assuming this role, and the associated risk that a deficit could emerge in the future which Aberdeen may be required to fund, Aberdeen is entitled to a minority share of current and future surplus emergence, with the remainder used to enhance members’ future benefits. In addition, through a separate arrangement, Aberdeen provides investment management services to SGPS.

The accounting for this landmark transaction is set out in detail within the [Aberdeen Group FY25 accounts](#) and we explore this briefly below:

- The underlying pension scheme assets and liabilities (each of c.£1.2bn) are not consolidated. It is judged that Aberdeen does not ‘control’ SGPS for accounting purposes.
- The arrangement is considered as Aberdeen’s share of the emergence of surplus and any required contribution towards deficit funding (i.e. a net presentation). Although not legally an insurance contract, the arrangement exposes Aberdeen to longevity risk which is considered significant and so the arrangement is accounted for under IFRS 17 (using the General Measurement Model). The criteria for accounting under IAS 19 *Employee Benefits* are not met.
- Under IFRS 17 at FY25, the arrangement results in a positive present value of future income to Aberdeen of £63m, offset by a risk adjustment of £6m and a CSM of £57m, resulting in a net zero insurance contract liability reflecting the proximity of the transaction to 31 December.
- The investment management service arrangement is accounted for separately under IFRS 15 *Revenue from Contracts with Customers*.



The ‘final’ end of embedded value reporting?

Since the implementation of Solvency II in Europe, the reporting of embedded value, whether European Embedded Value (EEV) or Market Consistent Embedded Value (MCEV) © as published by the European Insurance CFO Forum, has diminished significantly. At FY25, the last significant reporter among UK life insurers, Rothesay, reduced its MCEV disclosure further with more focus on a new IFRS economic value (or ‘IEV’) measure.

It should be noted that St. James’s Place in the UK continues to report an EEV for its predominantly wealth management business.

More broadly, embedded value continues to be widely used in Asia, notably by Prudential plc and AIA, potentially reflecting differing regulatory regimes across countries. Reporting in these markets tends to be on a ‘Traditional Embedded Value’ (or TEV) basis; for example, Prudential notably reverted from EEV to TEV from the first quarter of 2025.



We look back with pride on the support we provided to the European Insurance CFO Forum in their development of both the EEV and MCEV Principles.

Anthony Coughlan & Brian Paton

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Appendix

In the Appendix we provide further analysis of various technical approaches under IFRS 17. This includes exceptional items excluded from AOP; the release of the CSM for annuities; the selection of reference portfolios used to determine the discount rates applied to annuity cash flows; and the release of the CSM where investment services are provided. We also present metrics relating to the risk adjustment and a summary as to how distributable reserves are determined for UK life insurers. In addition, a list of the insurance companies included in the publication is provided.



Adjusted operating profit – Exceptional items



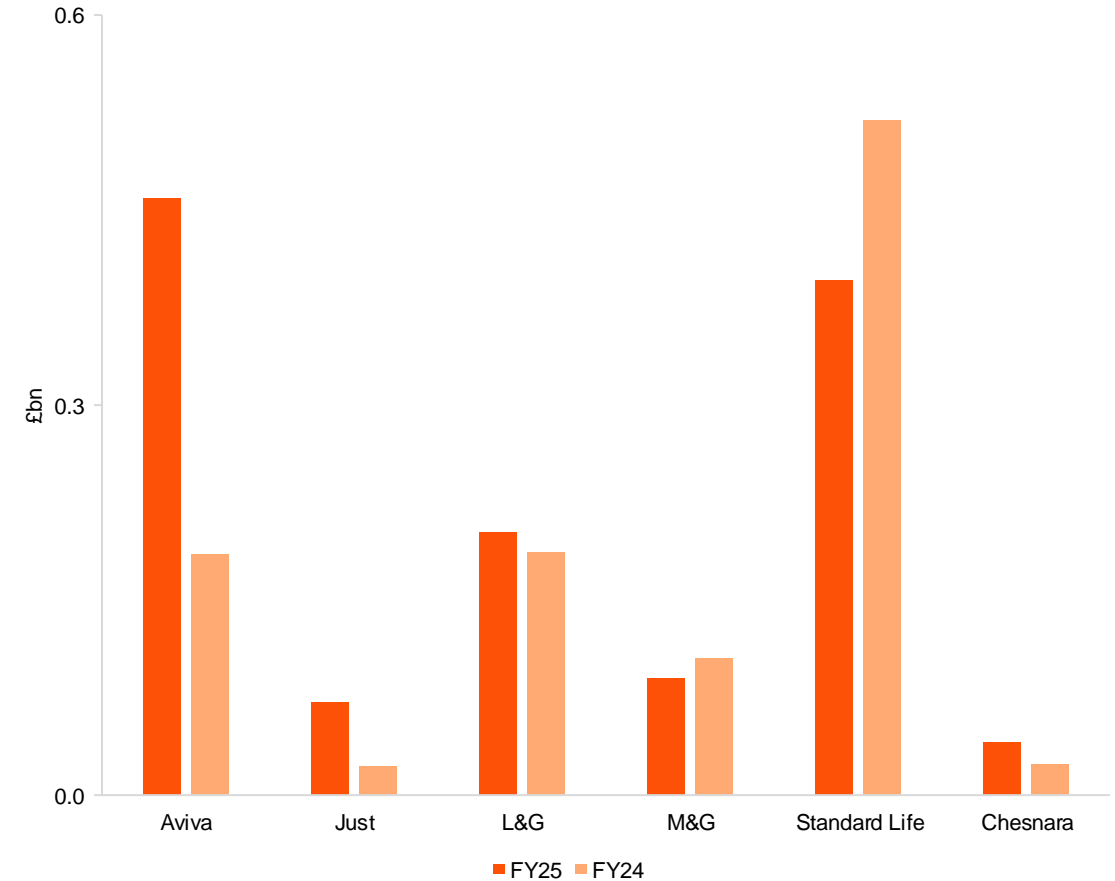
What do insurers classify as exceptional non-operating items?

The chart presents non-operating items classified as exceptional and excluded from Adjusted Operating Profit (AOP) for FY25 and FY24, respectively. As observed, these items can be significant relative to both AOP and total IFRS profit.

In summary, for each insurer at FY25:

- **Aviva** (Integration and restructuring costs, and Other): Costs related to *'integrating strategic partnerships with Diligenta and FNZ', 'integration of Direct Line' and 'costs associated with acquisitions'*. Note, within 'Other', Aviva includes the IFRS 17 mismatch relating to acquired claims in settlement. This has been excluded from the figures presented in the chart (applicable only at FY25).
- **Just** (Strategic expenditure): Primarily relating to the Brookfield acquisition.
- **L&G** (M&A and restructuring): Costs included *'expenses associated with the disposal of the Group's US insurance entity, as well as ... the extension of Asset Management's partnership with State Street.'*
- **M&G** (Restructuring costs and other): Costs relating to *'actions taken to reduce our cost base', 'investment spend in building out capacity in our Asset Management business' and in relation to the 'Group's Financial Crime Enhancement Programme'*.
- **Standard Life** (Other non-operating items): Costs associated with the *'Group Target Operating Model for IT and operations', 'finance transformation activities', 'strategic growth initiatives', 'delivery of the Group's 3-year cost saving programme', 'in-housing management of annuity backing assets' and 'residual corporate project costs'*.
- **Chesnara** (Integration and restructuring costs): Costs associated with *'Chesnara Life [formerly HSBC Life (UK)] acquisition and M&A activities'*.

Exceptional items excluded from AOP
(UK listed life insurers)



Source: PwC analysis and interpretation of FY25 and related external disclosures.

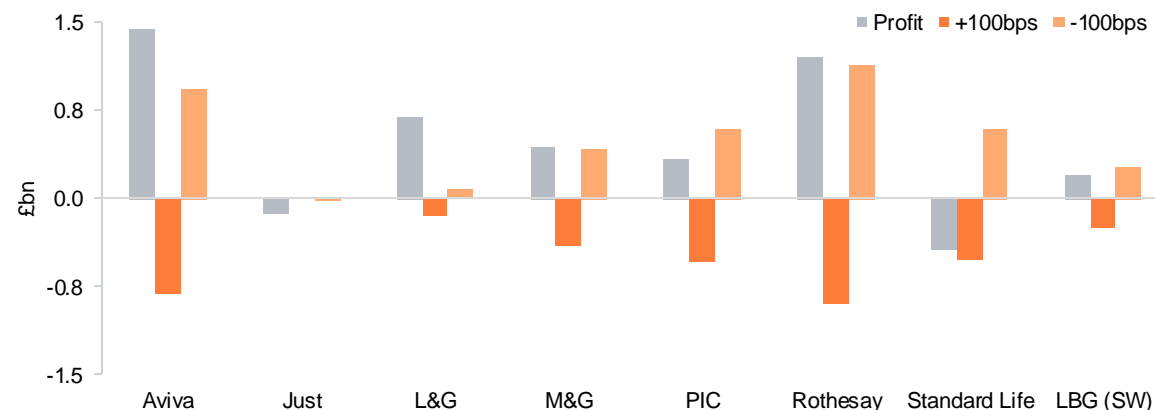
IFRS Sensitivities



Key themes:

- The exhibits on this page present the sensitivity of profit before tax to changes in interest rates and a selection of non-economic sensitivities presented by insurers at FY25.
- Economic sensitivities, such as interest rates, are influenced by both the hedging and accounting approaches adopted by insurers. Typically, insurers hedge on a Solvency II basis which, as observed earlier in this publication, can result in volatility in IFRS results at a given point in time. However, some insurers seek to mitigate IFRS sensitivities through the use of accounting options, such as the IFRS 17 risk mitigation option for equity risk hedging for with-profits business, or holding a portfolio of assets measured at amortised cost to partially back the annuity CSM.
- There remains some variation in the selection and magnitude of sensitivities presented by insurers. As the impacts are not necessarily linear, this can make comparisons difficult.

Profit before tax interest rate sensitivity at FY25



Source: PwC analysis and interpretation of FY25 and related external disclosures. Note: to aid comparison, the disclosed sensitivities have been scaled where these are calibrated differently to +/-100bps and where a post-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.

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% ~c5% decrease in Net CSM	Trend: +10% ~c1% decrease in Net CSM	Default: +10bps ~£242m decrease in PBT (Pre)	CI: +5% (Ultimate) ~c31% increase in Net RA
L&G	Base Mortality: -1% ~c2% decrease in Net CSM	Not disclosed	Default: +10bps ~£399m decrease in PBT (Post)	CI: +1% (One Year) ~c3% increase in Net RA
M&G	Base Mortality: -1% ~c1% decrease in Net CSM	Trend: +0.25% ~c3% decrease in Net CSM	Default: +5bps ~£40m decrease in PBT (Post)	CI: +5% (One Year) ~c20% increase in Net RA
PIC	Base Mortality: -5% ~c4% decrease in Net CSM	Trend: +0.1% ~c2% decrease in Net CSM	Not disclosed ¹	Not disclosed
Rothesay	Base Mortality: -5% ~c2% decrease in Net CSM ³	Not disclosed	Not disclosed ¹	Not disclosed
Standard Life	Base Mortality: -5% ~c12% decrease in Net CSM	Not disclosed	Not disclosed ¹	Not disclosed
LBG (Scottish Widows)	Base Mortality: -5% ~c17% increase in PBT ³	Not disclosed	Not disclosed ¹	Not disclosed

Source: PwC analysis and interpretation of FY25 and related external disclosures.

¹ Aviva, PIC, Rothesay, Standard Life and LBG (SW) did not disclose a specific stress relating to the credit default assumption. Except for LBG (SW), the remaining insurers did include a +/- 50 (Aviva) and +100 (PIC, Rothesay, Standard Life) bps change in credit spreads respectively.

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

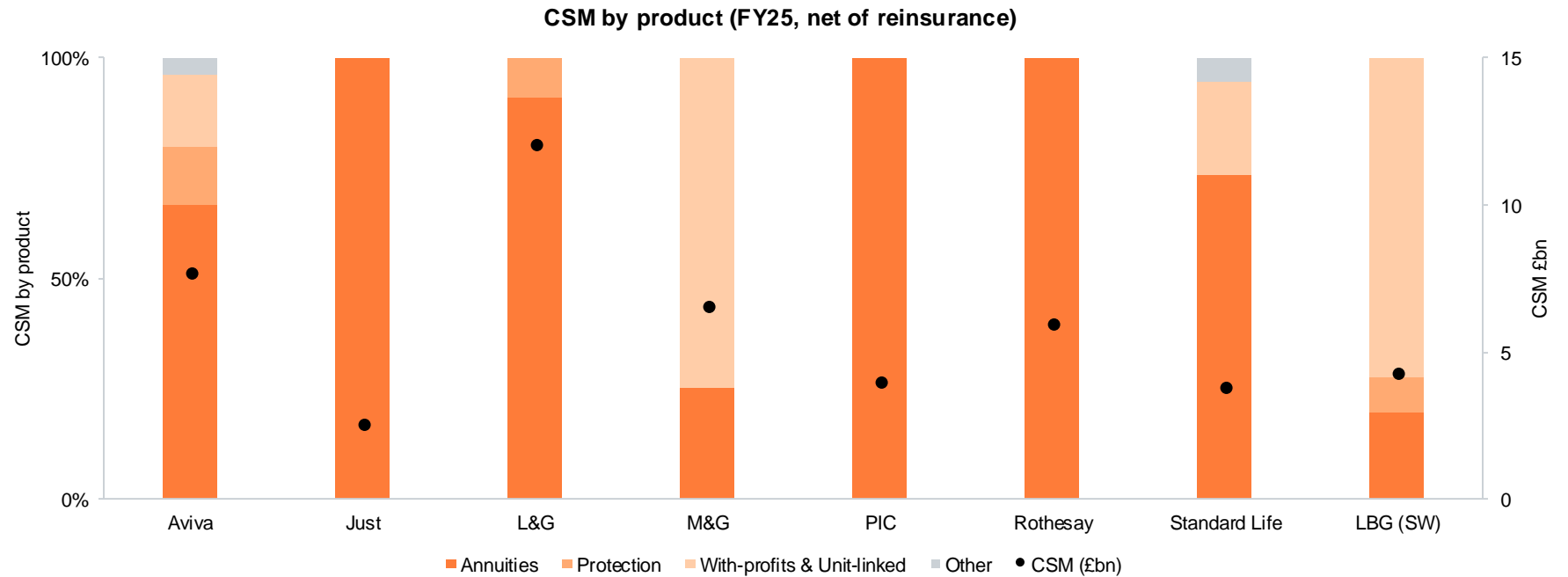
³ For LBG (SW), the sensitivity is only provided for profit before tax (PBT). For Rothesay, the sensitivity is provided for AOP and PBT so the CSM impact is implied.

What is the breakdown of CSM by product?

The chart below presents the net of reinsurance CSM at FY25, 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/or 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 FY25, L&G, Aviva, and Standard Life collectively reported over £700bn of non-participating investment contract liabilities, primarily unit-linked contracts.

72%

of the total net of reinsurance CSM relates to annuity contracts.



Source: PwC analysis and interpretation of FY25 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. 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.
3. Standard Life: 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.
4. LBG (SW) = Lloyds Banking Group (Scottish Widows Limited), Disclosure group 'Pensions & Investments' mapped to With-profits and Unit-linked.
5. Chesnara is not included, as the results (including the CSM) are presented by country rather than product.

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 FY25, to allow for asset deployment when determining the reference portfolio, along with any other notable observations on the selected reference portfolio. Any changes since FY24 are highlighted.

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 ‘... recently written contracts ... where appropriate assets are yet to be sourced.’ In addition ¹ , the ‘... benefit from bringing the new business into our optimised portfolio compared to measuring each scheme on a stand-alone basis ...’ 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 ‘... to allow for a period of transition from the actual asset holdings to the target portfolio where necessary.’ The period of transition is ‘expected to be 12 months from the period close, but may be longer depending on the speed and volume of asset originations together with any delay in the sale of assets transferred in species, if applicable.’ [Revised at FY25]
L&G	Not explicit – It is noted that ‘... any difference between the actual allocated asset mix and the target long term asset on new pension risk transfer business...’ is reported within non-operating profit. In addition, the FY25 point-of-sale new business CSM (part of the headline IFRS bulk annuity new business margin) ‘... Includes annuity book optimisation from Funded Reinsurance (£66m) and Direct Investment capacity enabled by gilts-based investment strategies from new business written in the year (£76m).’ This suggests that this headline metric uses a marginal reference portfolio to capture the benefit of new business across the annuity portfolio.
M&G	Yes – The reference portfolio is adjusted ‘... to allow for a period of transition from actual asset holdings to the target portfolio’. The period of transition is ‘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.’
PIC	Yes – The reference portfolio is adjusted ‘... where there is a time lag ...’ in investing new business premiums ‘... to reflect the anticipated assets.’
Rothesay	Not explicit – It is noted that ‘The reference portfolio comprises a mix of assets that Rothesay owns or expects to buy backing insurance liabilities, which in aggregate closely match the cash flow profile of the liabilities. As such it is materially equivalent, and similar in composition to the total portfolio owned by Rothesay ...’
Standard Life	Yes – The reference portfolio is adjusted ‘... 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, and to reflect any strategic management actions actively underway to re-shape the annuity asset portfolio.’
LBG (Scottish Widows)	Yes – ‘For annuity contracts ... at initial recognition, the illiquidity premium is calculated with reference to a strategic portfolio of assets, and subsequently measured to reflect the mix of actual assets backing annuity contracts, adjusted to reflect the impacts of transition from initial recognition.’

Source: PwC analysis and interpretation of FY25 and related external disclosures, unless otherwise noted.

¹ Sourced from Aviva’s July 2023 IFRS 17 comparative result publication. At FY25, the amount reported in the Aviva Financial Supplement for Retirement new business operating profit is £nil (FY24: £46m).

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 FY25. We observe that:

- There are no substantive changes in the approach compared to FY24 and 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	M&G	PIC	Rothesay	Standard Life	LBG (SW)
Driver in-payment phase ³	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo
Driver in-deferment phase	Expected return (Locked-in)	Return on funds backing future cash flows	Expected return (Backing assets) ²	Transfer amount	Expected return (Transfer value) ²	Not explicit	Fund size	Benefit amount payable
Weighting between phases for deferred annuities ¹	'Target' CSM	'Equivalent' service	'Target' CSM	Not disclosed	Same 'value' of services across phases	'Target' CSM	'Consistent level of service' on transition	'Relative amount of benefit' over lifetime
Discounting	✓ (Rate not explicit)	✓ (Locked-in)	✓ (Rate not explicit)	✓ (Locked-in)	✓ (Locked-in)	✓ (Locked-in)	✓ (Locked-in)	✓ (Locked-in)

Source: PwC analysis and interpretation of FY25 and related external disclosures.

² L&G also explicitly states coverage units during the deferred period for insurance coverage (whether relating to a spousal annuity or a lump sum death benefit). PIC similarly states that its approach allows for the insurance coverage provided in respect of spouses' benefits during the deferred period.

³ The insurance coverage for life contingent annuities is represented by payments to annuitants, as confirmed by the IASB Interpretation Committee ("IFRIC") in 2022 agenda item "Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts)".

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 a active market) that provide an insurance service equivalent to that provided by the deferred annuities post-retirement."

Just: "The Group uses the probability of the policy being in force in each time period for weighting coverage units. This weighting reflects management's view that the value of services provided to policyholders is broadly equivalent across the different phases over the term of contracts. The weightings applied are updated each period for changes in life expectancies of policyholders."

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."

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 [being insurance coverage arising from the spouse's annuity on first death and, in general, investment-return service], and the number of coverage units provided once the policyholder has retired is equal to the third type of coverage unit only [being the annuity outgo]. 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 terms of the contract ...". At FY24 it was also disclosed that this 'ensures that the relative values ascribed to the different services are consistent throughout the CSM amortisation over the lifetime of the contract.'

Standard Life: "... 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."

LBG (Scottish Widows): "A weighting is applied ... using a present value approach. For deferred annuities, the different insurance services provided are weighted by taking into consideration the relative amount of the benefit over the full lifetime of the contract."

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 Measurement 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 approaches 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
M&G	Greater of unit funds (or asset shares) and the amount payable on death	
Standard Life	Annual management charge and insurance charges	Maximum of guaranteed benefit & asset share
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 FY25 and related external disclosures. The only exception is for AEGON UK where the FY24 Scottish Equitable plc 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 FY25 IFRS reporting:



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. ...”

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 adjusted by considering the expected return of underlying items resulting from real-world (RW) deterministic assumptions.”

Generali: “The coverage unit mechanics spread [the CSM], including the systematic economic variance, defined as the impact on the CSM of the excess of real-world returns over risk-free rates ... According to the Group's position, this “systematic variance” reflects the investment-related services provided to the policyholder and, as such, consistently with IFRS 17 requirements, is considered as an adjustment to the coverage units ... This approach **allows the avoidance of the deferral of the systematic economic variance and its concentration towards the end of the projection horizon (so-called “bow-wave” effect).**”

Prudential: “Investment-related and investment-return services are assumed to be **constant over time.**” and where there are multiple services “weighting factors are defined as the present value of expected outflows for each type of service ...”

HSBC: “Investment services ... based on a **constant measure basis** which reflects the provision of access for the policyholder to the facility.” and where there are multiple services “coverage units are weighted according to the expected present value of the future cash outflows for each service.”

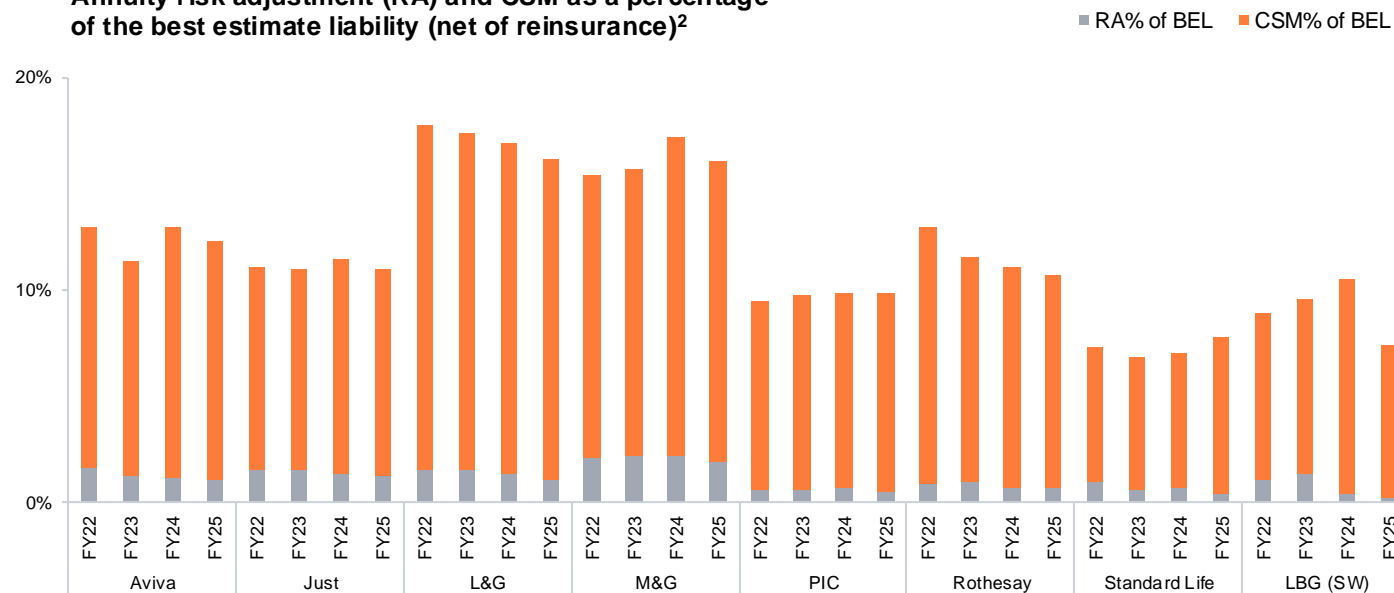
Risk adjustment

At FY25, the disclosed risk adjustment percentiles remain consistent with those reported at FY24, with only minor changes observed for certain insurers. 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 percentile¹

Insurer	'1 year' view	'To ultimate' view
Aviva	Not disclosed	72 nd (FY24: 68 th)
Just	90 th	70 th
L&G	85 th	70 th (FY24: 75 th)
M&G	75 th	60 th
PIC	85 th	70 th (FY24: 69 th)
Rothsay	87 th (FY24: 90 th)	63 rd
Standard Life	80 th (Gross)	61 st (Gross)
LBG (Scottish Widows)	85 th	68 th
Chesnara	66 th (FY24: 67 th)	60 th
HSBC	75 th	64 th (FY24: Not disclosed for UK business)
Prudential	75 th	Not disclosed

Annuity risk adjustment (RA) and CSM as a percentage of the best estimate liability (net of reinsurance)²



Source: PwC analysis and interpretation of FY25 and related external disclosures (including prior years).

¹ The FY24 comparative is presented only where it differs from the FY25 percentile.

² The analysis is based on the IFRS 17-required disclosure reconciliation tables. Aviva reflects the 'Life Risk' disclosure group 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, and it is assumed that all reinsurance relates to this disclosure group. For Standard Life, the 'Retirement Solutions' segment is presented.

Comparison of technical IFRS 17 approaches

The table below compares selected technical IFRS 17 approaches adopted by UK life insurers, highlighting certain variations across firms. It is based on external FY25 disclosures and is not intended to be exhaustive.

Approach	Aviva	Just	L&G	M&G	PIC	Rothesay	Standard Life	LBG (SW)	Chesnara
Reporting date	5 March	27 February	11 March (prelim) 18 March (ARA)	12 March	18 March	27 March ¹	16 March	18 February (LBG ARA) 19 March (SW)	24 March
IFRS 17 contract classification									
Approach to classify hybrid contracts (i.e. mix of with-profits and unit-linked)	Classify using aggregate features	N/A	N/A	Classify after separating components	N/A	N/A	Classify using aggregate features	Classify using aggregate features	Not explicit
Apply IFRS 9 to account for certain with-profits contracts (i.e. those not under IFRS 17)	Not explicit	N/A	N/A	✓ (certain European PruFund)	N/A	N/A	Not explicit	Not explicit	x
Quantitative eligibility threshold for the VFA ('substantial' in IFRS 17.B101(b)&(c))	>50%	N/A	N/A	Not explicit	N/A	N/A	>50% (& further qualitative factors considered if <50%)	Not explicit	Not explicit
Apply indirect participating general model ⁵	✓ (with-profits contracts with GAOs)	N/A	N/A	✓ (with-profits fixed term annuity) [New]	N/A	N/A	Not explicit	✓ (with-profits and unit linked contracts with GAOs or GMPs)	✓ (with-profits contracts where in-the-money guarantees)
Apply contract combinations for individual bulk annuities written as multiple contracts	Not explicit	✓	Not explicit	✓	Not explicit	Not explicit	Not explicit	N/A	N/A
IFRS 9 asset classifications									
Holding an amortised cost asset portfolio	x	✓ (partially back CSM, FY25: c.£4bn) ²	✓ (partially back CSM) ³	x	x	x	x	x	x

Source: PwC analysis and interpretation of FY25 and related external disclosures, unless otherwise noted.

Definitions: ARA: Annual Report & Accounts; LBG = Lloyds Banking Group; SW = Scottish Widows Limited; GAO = Guaranteed Annuity Option; and GMP = Guaranteed Minimum Pension.

Notes:

¹ Rothesay's accounts were formally published on 27 March, however, these were approved and signed on 13 February 2026.

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 FY25, L&G held c.£8bn of debt securities at amortised cost; however not all of these assets will necessarily 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.'

Comparison of technical IFRS 17 approaches (continued)

Approach	Aviva	Just	L&G	M&G	PIC	Rothesay	Standard Life	LBG (SW)	Chesnara
IFRS 17 options									
OCI option for liability discount rate (with a portfolio of FVOCI/amortised cost assets).	x	x	✓ (protection business) ¹	x	x	x	x	x	x
Applying the risk mitigation option for (VFA) with-profits contracts	✓ (equity and interest rate risk)	N/A	N/A	x (use of AOP)	N/A	N/A	✓ (Voluntary accounting policy change to apply to equity risk in 2026) [New]	✓ (equity and currency risk)	x
Disaggregate changes in risk adjustment (financial/non-financial)	✓	✓	✓	✓	✓	✓ (implicit)	✓	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	Continuation (in general) [New]	Continuation	Continuation (implicit) ⁴	Not explicit	N/A	N/A
Contract boundary for with-profits contracts with GAOs.	Whole term incl. annuity option	N/A	N/A	Not explicit	N/A	N/A	Whole term incl. annuity option	Whole term incl. annuity option	Not explicit
Treatment of cash flows relating to future with-profits policyholders	Not explicit	N/A	N/A	Explicit ('B71') liability for additional amount to current and future policyholders ²	N/A	N/A	N/A closed fund and surplus allocated to existing policyholders	Separate liability held for payments after insurance coverage	Not explicit
Application of IFRS									
Use of IFRS for Group and Insurance Subsidiary reporting.	Both	Both	Both	Group only (subsidiaries always UK GAAP) ³	Both	Both	Group only (moved to UK GAAP for subsidiaries at FY23) ³	Both	Both

Source: PwC analysis and interpretation of FY25 and related external disclosures, unless otherwise noted.

Definitions: LBG = Lloyds Banking Group; SW = Scottish Widows Limited; GAO = Guaranteed Annuity Option; and FVOCI = Fair Value through Other Comprehensive Income.

Notes:

¹ 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.'

² 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 FY25 SFCR to be c.£9bn (FY24: c.£8bn). In addition, the FY25 accounts (Note 32.7.3) states that there is c.£1.0bn of IFRS shareholder equity reflecting the shareholders' allocation of with-profits surplus assets which is 'not easily or practicably fungible to shareholders in the short-term'.

³ 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.

⁴ At FY24, Rothesay explicitly stated: 'In general, we do not consider conversion from buy-in to buy-out as a modification and derecognition event, as the terms and conditions of a buy-out are set out in the original buy-in contract and the benefits provided are unchanged. However, we assess the underlying terms and conditions of each contract to assess whether this treatment is appropriate.' At FY25, this statement is no longer explicitly disclosed.

Comparison of technical IFRS 17 approaches (continued)

Other technical IFRS 17 comparisons

There are other aspects of the technical IFRS 17 approach that would be of interest to compare, but for which only limited information is available in external disclosures. For example, in relation to IFRS 17 future cash flows, these include:

Whether investment management expenses are included for life contingency annuities (which we might expect).

The extent to which the cost base is considered attributable and therefore included within the cash flows, compared with Solvency II technical provisions (where there may be mixed practice).

The extent to which future non-contractual premium increments for savings contracts are included within the contract boundary.

In addition, for the annuity CSM, it would be helpful to understand how the concept of 'locking-in' is applied in practice beyond the discount rate. For example, the extent to which financial risk is locked in, including in respect of benefit inflation for index-linked annuities, and whether this is applied only on a prospective basis (which we might expect). It would also be helpful to understand whether the rate used to discount coverage units (if applied) is locked in, whether benefit inflation is current or locked-in when measuring coverage units, and the extent to which the weighting between services for deferred annuities is locked-in.

Prudential and HSBC, both UK-listed entities, have significant non-UK insurance operations. As such, comparisons of UK technical IFRS 17 approaches are less directly applicable to a primarily Asian-focused product mix. However, certain areas remain comparable with other UK insurers. For example, HSBC applies a "majority" quantitative eligibility threshold for the VFA, utilises the risk mitigation option, and does not disaggregate changes in the risk adjustment. In contrast, Prudential has limited application of the risk mitigation option, does not apply the OCI option, and does disaggregate changes in the risk adjustment.

What accounting basis is used by UK listed insurers for their life subsidiaries?

For Standard Life and M&G, their primary life insurance companies report under UK GAAP (notably Phoenix Life Limited (PLL) and The Prudential Assurance Company Limited (PAC), respectively), whereas the equivalent subsidiaries at Aviva, L&G and Just Group report under IFRS. PLL transitioned from IFRS to UK GAAP in FY23 (prior to the effective date of IFRS 17), while PAC has historically reported under UK GAAP. In comparing IFRS to UK GAAP for UK life insurers:

Annuity business

The recognition of profit is typically faster under UK GAAP than under IFRS, reflecting differences in the balance between prudent margins within UK GAAP technical provisions and the IFRS 17 contractual service margin and risk adjustment within insurance contract liabilities.

With-profits business

The converse applies, profits typically emerging more slowly under UK GAAP than under IFRS. Under UK GAAP, profits are recognised as bonuses are declared (shareholders' share) or as charges are paid by the with-profits fund, reflecting the Fund for Future Appropriations (FFA) liability. This was most noticeable on the adoption of IFRS 17, when M&G recognised c.£1.7bn (at 1 January 2022) of equity, reflecting the shareholders' interest in excess assets within the with-profits fund, which remains within the FFA in the PAC UK GAAP accounts.

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.

Group consolidated IFRS equity versus distributable reserves



How to determine distributable reserves for UK life insurers?

For UK life insurers, distributable reserves determine the capacity to pay dividends to shareholders and are distinct from Group consolidated IFRS equity. The level of distributable reserves is driven by legal entity regulatory constraints and financial statements, rather than Group consolidated results.

Dividends to shareholders are paid by the parent company based on its own distributable reserves, derived from its standalone financial statements. These reserves are built from profits received from subsidiaries (e.g. life insurance companies), rather than directly from Group consolidated IFRS earnings.

For UK life insurance companies, the amount of distributable reserves is determined in two stages:

1

Accumulated realised profits or losses are calculated on an adjusted Solvency II basis, as set out in Section 833A of the Companies Act. This is determined as Solvency II net assets less a number of specific adjustments, which notably include excess assets in with-profits funds, excess assets in matching adjustment portfolios, surplus on defined benefit pension schemes, surplus on certain investment subsidiaries, and share capital and other capital reserves.

2

The amount from Stage 1 is capped at cumulative profits less losses reported in the life company's financial statements (whether prepared under IFRS or UK GAAP). The binding constraint is typically the adjusted Solvency II valuation determined in Stage 1.

Life insurance subsidiaries generate distributable reserves (subject to these requirements), and dividends are paid up to the parent company. The parent company can then distribute dividends to shareholders, subject to its own distributable reserves.

As a consequence, there can be a significant disconnect for UK life insurers between Group consolidated IFRS equity (which reflects accounting measurement under IFRS 17) and distributable reserves (which are driven by legal entity regulatory constraints and financial reporting).



How does IFRS 17 apply to mutual insurers?



For a mutual insurer, there are specific implications as noted by the IASB in IFRS 17 and related education material, [‘Insurance contracts issued by mutual entities’ \(July 2018\)](#). In particular:

- Non-profit contracts issued by a mutual insurer apply IFRS 17 as if they were issued by a proprietary company, so the insurance contract liabilities include a full risk adjustment and CSM.
- With-profits policyholders would likely be viewed as having two identities, that is both as a policyholder and as an owner with the ‘residual interest’ in the mutual insurer. The IFRS 17 insurance contract liability would consist of cash flows allowing for both interests and a risk adjustment relating to the compensation the mutual requires for bearing uncertainty from each individual policyholder. There is no CSM.
- In principle, given the two identities, no equity would arise. However, due to potential mismatches in the valuation of certain liabilities, equity may arise under IFRS reporting. An example of such a mismatch is the accounting for underlying items at fair value when valuing with-profits liabilities under the Variable Fee Approach in IFRS 17.

As noted earlier in this publication, there is no experience in the UK of mutual insurers applying IFRS 17. In other European countries, there is similarly limited experience, as mutual insurers do not typically report under IFRS and this outcome has been achieved through various routes. Where mutual insurers have adopted IFRS 17, the existence of equity can be observed. As an example, an extract from KLP Group, a mutual insurer in Norway, is presented.

KLP Group



Mutual status

IFRS 17 has special rules for mutual entities. KLP is a mutual insurance company, defined by the fact that the policyholders, current or future, are entitled to the residual value of the business. The residual value is equal to the sum of all assets minus all liabilities. The insurance contracts KLP has issued also meet the requirement for risk sharing between policyholders. A risk adjustment for non-financial risk is calculated in the usual way...

Since the residual value for the business is added to current or future policyholders, there is normally no equity in mutual entities under IFRS 17. According to this standard, the capital paid into the Group, which is defined as equity in other regulations, is part of the cash flows resulting from performance of the insurance contract...

*The residual value should be measured at fair value and included in the liability to the policyholders. However, some asset and liability items included in the residual value are not recognised at fair value, either because this is not permitted under IFRS, or because the Group has chosen a different valuation method. **Any measurement differences on assets and liabilities that have not been measured at fair value will be recognised as reported equity, even though they are not equity in a regulatory or economic sense.** Changes in equity will constitute total comprehensive income.*

Mutual entities also do not have a contractual service margin (CSM), as there is no service margin or profit to the enterprise. Instead of equity and CSM, the Group shows a residual value on the balance sheet which represents the policyholder’s capital in excess of the value of liabilities including risk adjustment (adjustment for non-financial risk)...

Source: [KLP Group Annual Report 2022](#) and accounts for subsequent periods ending 31 December 2023 to 2025.

KLP Group has reported negative equity, referred to as ‘owner’s equity’, as a consequence of IFRS 17 at transition (1 January 2023) and in each reporting period from 31 December 2023 to 31 December 2025.

List of UK life insurance companies considered



Company

Aviva

Rothesay

Just Group (Just)

Standard Life (formerly Phoenix)

Legal & General (L&G)

Lloyds Banking Group (Scottish Widows)

M&G

Chesnara

Pension Insurance Corporation (PIC)

In addition, for certain analyses the following other insurers (or insurance operations) were considered: AEGON UK (Scottish Equitable Limited plc accounts only), and the Group consolidated financial statements for AXA, Allianz, Generali, Prudential, HSBC, Aberdeen, St. James's Place and KLP Group.

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Key contacts and related publications



Key contacts

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Other related PwC publications



Available on the PwC website:

FY24 IFRS 17 Analysis for UK life insurers:

<https://www.pwc.co.uk/insurance/assets/pdf/ifrs-17-fy24-analysis-for-uk-life-insurers.pdf>

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 reporting analysis:

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

HY23 UK IFRS 17 results analysis:

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

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