# Disclosure of expected impacts of IFRS 17 and IFRS 9 prior to initial application

## Observations from interim financial statements as of 30 June 2022

**November 2022**

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# Content



25 global listed insurance and reinsurance companies were evaluated as part of EY IFRS 17 and IFRS 9 disclosure analysis of interim financial statements as of 30 June 2022.

# Introduction

## Background

- Insurers are preparing for the upcoming effective date of IFRS 17 **Insurance Contracts** on 1 January 2023 and most of them are also applying IFRS 9 ***Financial Instruments*** at the same date for the first time
- In the financial statements issued for periods before the initial application of a new IFRS, insurers need to comply with the requirements in IAS 8 ***Accounting Policies, Changes in Accounting Estimates and Errors*** in respect of the disclosure of the expected impacts of initial application on their financial statements. This is required by paragraph 30 of IAS 8 which states that insurers shall disclose 'known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application'
- As regards interim financial statements, according to paragraph 15 of IAS 34 ***Interim Financial Reporting*** insurers need to disclose 'an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report'. As such insurers need to update the IAS 8 disclosure they provided in their 2021 annual report as necessary
- As we get closer to the date of initial application, there is an increasing focus from regulators and investors on understanding financial impacts. As such, insurers will need to determine what disclosures to include in their interim and annual 2022 financial statements, ensuring they meet the requirements set by IAS 8 in order to provide useful information to users

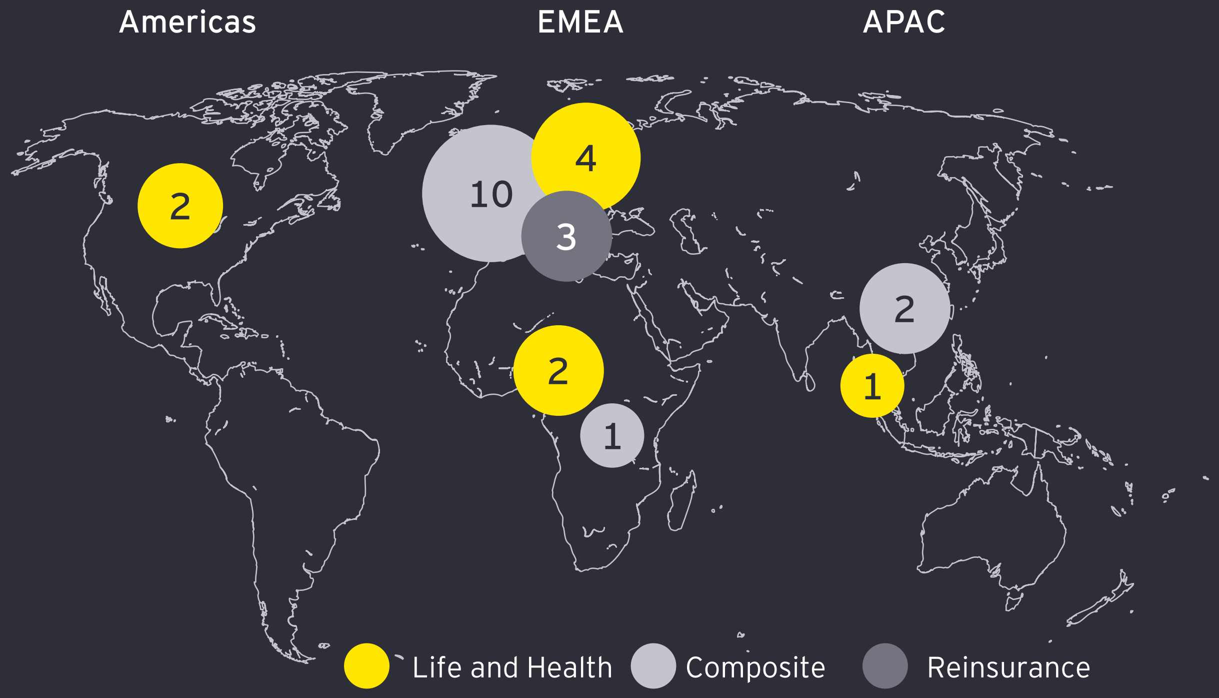
## Analysis performed

- We have selected a number of listed insurance groups globally which are domiciled in jurisdictions adopting IFRS as accounting framework and we have analyzed the interim financial statements as of 30 June 2022 of the selected companies for disclosures made in relation to the impacts of the adoption of IFRS 17 and IFRS 9

# Population: 30 June 2022 Interim accounts within Europe, America, APAC and Africa, split across Life and Health, Composite and Reinsurance segments

- For the purpose of our analysis we have selected **25 listed insurance and reinsurance groups** across different countries in order to have a broader geographical coverage. The groups selected are **Life and Health, Composite or Reinsurance** and are all subject to **IFRS17 reporting at a group level**
- All the selected groups **prepare interim financial statements** in accordance with IAS 34 either on a quarterly or half-year basis. For the purpose of this analysis we have utilised the published interim financial statements **as of 30 June 2022**

**Twenty-five insurers** split across **four geographical areas** and **three segments**




**Insurers by geography:**

- 17 based in **Europe**
- 2 based in **America**
- 3 based in **APAC**
- 3 based in **Africa**

**Segment:**

- **Life and Health:** 9 groups underwrite life and health business, that includes short- and long-term savings and retirement products
- **Composite:** 13 groups are composite and underwrite both P&C business and life and health business
- **Reinsurance:** 3 groups are reinsurers that cover both P&C business and life and health business

# Key observations: categorized into qualitative and quantitative information, with the disclosures focusing on qualitative information

- Overall the amount of information disclosed is limited, and mostly relates, to information about the main IFRS 17 accounting policies that will be adopted
- Insurers generally did not disclose entity-specific information of the expected impacts in their financial statements stating that they are currently assessing it and did not provide specific details on the uncertainty still outstanding and the indicative timing for these uncertainty to be resolved
- It is expected that insurers will increase their level of disclosure, from both a **qualitative** and a **quantitative** perspective, in their 2022 annual financial statements, as the available information on the expected impacts of IFRS 17 and IFRS 9 on their financial statements increases (also in the light of investors day which will take place in Q4 2022)

**IAS 8 requirements refer to both qualitative and quantitative information which have been addressed by insurers as follow**

## Qualitative Information

**15**

Insurers disclosed information with respect to the application of (some of the) new **IFRS 17 accounting policies**, in particular on the following aspects:

- The use of transition methods
- The accounting policy election adopted to present insurance finance income and expense
- The methodology for calculating the risk adjustment and the discount rate

**~50%**

Insurers that provided some information in relation to the new **IFRS 9 measurement models** they will adopt. Information around the Expected Credit Loss model and hedge accounting were not disclosed by the majority

The granularity of the details included differed across insurers where some included **entity specific information**, while others mainly provided **general disclosure** with limited specific information

## Quantitative Information

**~90%**

Insurers did not provide **quantitative estimate of the expected impacts** as they currently still assessing such impacts, and hence, they are not able to provide a reasonable estimate

**7**

Insurers mentioned that they expect **more details to be available in the 2022 annual financial statements**, as they are currently assessing the impacts

**8**

Insurers provided **qualitative** information, disclosing that their general expectation is for the **shareholder's equity to be reduced** due to the increase of the insurance liabilities with the establishment of the CSM (mainly in the life business)

**2**

Insurers provided a numerical estimate on the expected impacts on shareholder's equity

# Disclosure Roadmap: the analysis has been performed across key disclosure areas under both IFRS 17 and IFRS 9

## The following disclosures have been evaluated

**1** — **General information – IFRS 17 and 9 implementation program:** disclosure of general information related to the status of the IFRS 17 and IFRS 9 implementation program

**2** — **Qualitative disclosure**

| IFRS 17 | | IFRS 9 | |
|---|---|---|---|
| Measurement Models | A | Restatement Comparative | A |
| Discount rate | B | Classification overlay Approach | B |
| Risk adjustment | C | New accounting policies | C |
| Contractual Service Margin (CSM) | D | | |
| Transition Approaches | E | | |
| Accounting policy choice for Insurance Finance Income and Expense (IFIE) | F | | |
| Annual Cohort Exemption (EU Only) | G | | |

**3** — **Quantitative disclosure IFRS 17 and 9:** disclosure of **quantitative** impacts in the financial statements arising from the adoption of IFRS17 and IFRS 9. The **quantitative** disclosure can be expressed in different forms, including percentage changes, range of values and point of estimates

Note: In the subsequent slides, all numbers included are considered to be compared against the population size of 25 insurers (i.e., are independent from each other)

# 40% of the insurers provided details of the status of their implementation program while 60% disclosed which IFRS 17 measurement model they intend to use

## 1 General information – IFRS 17 and IFRS 9 Implementation program

- **90% entities** referred to their ongoing IFRS 17 and IFRS 9 implementation program
- **~40% entities** disclosed the main operational impacts to processes/systems and the development status of specific internal programs across different functions (e.g., the progresses of the IT workstream), along with the fact that they are in the process of performing parallel runs for IFRS 4 and IFRS 17

## 2 IFRS 17

### A. Measurement models: Insurers disclosing details about measurement models

| Adopted measurement model | General Measurement Model | Premium Allocation Approach | Variable Fee Approach |
|---|---|---|---|
| 15 | 3 | 7 | 5 |
| Disclosed which IFRS 17 measurement model they intend to adopt for the measurement of their insurance and reinsurance contracts | Disclosed that they will adopt the General Model (GMM) to all their business, including their non-life business | Disclosed the intention to use the Premium Allocation Approach (PAA) for P&C contracts and other contracts with one year coverage period while **1 insurer** disclosed the intention to use the PAA also for contracts with a coverage period longer than one year as much as possible | Disclosed the application of the Variable Fee Approach (VFA) to the eligible life contracts such as participating contracts and unit-linked contracts with direct participating features |



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# 9 insurers have provided information on the methodology to calculate the discount rate with the majority opting for the bottom-up approach

## B. Discount rate: Insurers disclosing details about discount rate calculation

| Discount rate calculation | Usage of bottom-up approach | Usage of top-down approach |
|---|---|---|
| 9 | 6 | 3 |
| Provided comments on the methodology to calculate the Discount Rate | Will adopt a bottom-up approach to determine the discount rate | Will calculate the discount rate using a top-down approach. In particular, **1 insurer** that will adopt the top-down approach disclosed that this approach will only be used with reference to the annuities business |

### Bottom-up approach

Entities using the bottom-up approach have disclosed that they will use the risk free rate curve adjusted for an illiquidity premium to reflect the characteristics of the cash flows and the liquidity of the underlying insurance contracts

### Top-down approach

Entities using the top-down approach are considering to use as a starting point a reference portfolio of assets adjusted to reflect the differences between characteristics of the insurance contracts and the reference portfolio

# 10 insurers provided commentary on the methodology used for risk adjustment calculation with the majority opting for a Cost of Capital approach

## C. Risk adjustment: Insurers disclosing methodology of calculating risk adjustment

**10**

Provided comments on the methodology used to calculate the risk adjustment for non-financial risk, with **1 insurer** disclosing the choice regarding the disaggregation of the risk adjustment for non-financial risk between Insurance Service Expense (ISE) and Insurance Finance Income or Expenses (IFIE)

- In particular, this insurer disclosed to opt for a disaggregation of the change in the risk adjustment between the change related to non-financial risk and the time value of money effect

### Among the insurers that disclosed the methodology to calculate the risk adjustment

**7**

Will use a **Cost of Capital (CoC) approach**, adjusted to comply with the IFRS 17 requirements:

- The majority of the insurers using the Cost of Capital approach will leverage the calculation of the Risk Margin under Solvency II

**2**

Will use a **Value at Risk (VaR) approach**, where the value at risk is the maximum loss within a given confidence level:

- Among the insurers using the VaR approach **1 insurer** disclosed also the percentile used (75%)

**1**

Will use an **explicit margin approach**

# 6 provided comments on the approach adopted for coverage unit determination and CSM release pattern distinguishing Non-Life and Life business

**D. Contractual Service Margin (CSM): Insurers disclosing approach adopted for coverage unit determination and CSM release pattern**

**6**

Provided comments on the approach adopted with respect to the coverage unit determination and the CSM release pattern

- Examples mentioned are for **Non-life** contracts a 'sum assured' approach; and for **Life** contracts 'asset under management' for the investment type service and the 'sum at risk' for insurance coverage service

**Out of the six insurers who provided comments on the topic**

**2**

Mentioned the adoption of a combined approach by weighting the coverage units for contracts with both insurance coverage services and investment type services

**1**

Did not provide disclosure of the coverage unit approach but, given the variety of insurance contracts, commented that the definition of coverage units will involve the use of judgment by considering both the level of coverage defined within the contract and the expected coverage duration of the contract

Roadmap

1

2

IFRS 17

A

B

C

D

E

F

G

IFRS 9

A

B

C

3

# Around half of the insurers have provided commentary on the transition method adopted

## E. Transition Approach: Insurers providing commentary on the transition method adopted

**~50%**

Commented on the transition method adopted. The majority of the insurers mention:

- They apply the full retrospective approach (FRA) when all the information is available
- Modified Retrospective Approach (MRA) and Fair Value Approach (FVA) were both mentioned as the alternative in case the FRA is impracticable

### Out of the insurers who commented on the transition method adopted

**5 insurers** disclosed the adoption of the FRA for non life business, short term business and most recent generations contracts

With regard to life business…

**…2 insurers** disclosed the use of the FVA, and

**…2 insurers** disclosed the use of the MRA as preferred approach, followed by the FVA only in case reasonable and supportable information can not be obtained for the MRA.

For long-term contracts where FRA is impracticable..

**..1 insurer** disclosed the adoption of the MRA as preferred method followed by the FVA for contracts where the insurer will apply the risk mitigation prospectively from transition date or for contracts substantially in run off

# Around half of the insurers disclosed the option elected to recognise IFIE; all EU-domiciled insurers disclosed their choice about the annual cohort exemption

## F. Insurance Finance Income or Expenses (IFIE) Accounting Policy Election

~50%

Insurers disclosed which option is elected to recognise insurance finance income or expenses

### IFIE in P&L

2 insurers disclosed to recognise the insurance finance income or expenses in P&L

- 1 of these 2 insurers clarified that the P&L policy option will not be applied to the protection business (i.e., there IFIE will be disaggregated between P&L and OCI)

### Disaggregation of IFIE between P&L and OCI

10 insurers opted to disaggregate insurance finance income expenses between P&L and OCI for the majority of their business

- Among these 10, 2 insurers disclosed that the reason for the decision is driven by the aim to reduce the P&L volatility

## G. Annual Cohort Exemption (EU-domiciled insurers only)

10
EU domiciled Insurers

All EU-domiciled reporters (i.e., excluding UK and Switzerland), disclosed their choice on whether they apply the annual cohort exemption on mutualized business

6

Disclosed that they will not adopt the exemption. In particular, 1 insurer stated that it does not underwrite business subject to the exemption, hence they will apply IFRS 17 requirements as issued by the IASB

4

Disclosed that they are planning to opt for the exemption, hence they will apply the IFRS 17 requirements as endorsed by the EU

Roadmap

1

2

IFRS 17

A

B

C

D

E

F

G

IFRS 9

A

B

C

3

# Several insurers are intending to restate comparatives for financial assets on the basis of IFRS 9 and/or the classification overlay approach

## 2 IFRS 9

**A. Restatement Comparative:** Insurers providing information on the restatement of comparatives

**9**

Disclosed whether or not they are going to restate comparatives for 2022

- In particular, these insurers are mentioning **the restatement of comparatives on the basis of IFRS 9 and/or the classification overlay approach**

**4**

Already started to adopt IFRS 9:

- **3 insurers** from 1 January 2018 as they are part of a banking group, and hence, they decided to follow the IFRS 9 effective date of the group
- **1 insurer** started to adopt IFRS 9 from 1 January 2022 in order to avoid simultaneous application with IFRS 17 for operational purposes

**B. Classification Overlay Approach:** Insurers adopting the classification overlay approach

**11**

Disclosed that **they are going to adopt** the classification overlay approach

Roadmap

1

2

IFRS 17

A

B

C

D

E

F

G

IFRS 9

A

B

C

3

# Almost half of the insurer provided disclosure about the IFRS 9 classification of their financial assets and liabilities

## C. New accounting policies: Insurers disclosing IFRS 9 impacts on their new accounting policies

**~50%**

Disclosed the changes in the measurement models of their financial assets and liabilities that IFRS 9 will introduce and the expected **IFRS 9 classification category** they plan to adopt

- Among these, **2 insurers** referred to the 2021 annual financial statements for more detailed disclosure

**7**

Provided disclosure on the **Expected Credit Loss** (ECL) model, and the high level methodology they plan to apply in calculating the impairment on their financial assets

**2**

Mentioned **hedge accounting**, stating that **there will be no impact** as compared to IAS 39

Roadmap

1

2

IFRS 17

A

B

C

D

E

F

G

IFRS 9

A

B

C

3

# Large majority of insurers did not provide quantitative disclosure of the impacts on financial statements with some expecting to disclose in the 2022 annual accounts

## 3 Quantitative Impacts

**~90 %**

Of the insurers did not provide quantitative disclosure of the expected impacts on the financial statements

- In particular, **7 insurers** mentioned that **quantitative** impacts on their IFRS 17 and IFRS 9 adoption can be reasonably estimated only at year end, hence, will be disclosed in the 2022 financial statements

**2**

Insurers disclosed **quantitative** impacts on equity at the transition date

- **1 insurer** estimated a reduction of around 20% with an overall decline of core earnings of approximately 10% under IFRS 17 as compared to IFRS 4
- **1 insurer** is expecting a reduction of CU 4.5bn mainly driven by the establishment of the CSM. This insurer also disclosed expected impacts with a percentage on the following metrics: Earnings Per Share growth, Return on Equity and Dividend pay-out

**When quantitative estimate were not provided, some insurers provided a qualitative disclosure about the expected impacts:**

**8**

Disclosed the expected trend on shareholder's equity and insurance liabilities, differentiated by life and non-life segments

- **P&C business:** generally, these insurers are expecting a slightly increase on shareholder's equity due to the positive effect of discounting which is only partially offset by the unfavourable negative effect of applying a risk margin for non-financial risk
- **Life business:** insurers are expecting a reduction of equity mainly driven by the establishment of the CSM

**6**

Disclosed that the adoption of IFRS 17 is not expected to have significant impact on their regulatory capital requirements at transition

# Appendix

# Glossary of key areas analyzed

## The analysis has been performed based on the following areas

| IFRS 17 | |
|---|---|
| Measurement Model | Decision around the IFRS 17 measurement models applied to insurance and reinsurance contracts |
| Discount rate | Discounted rate calculation |
| Risk adjustment | Determination of the risk adjustment and related presentation within P&L (Insurance Service Expense or Insurance Finance Income) |
| Contractual service margin (CSM) | Approach taken for the identification of coverage units and the related expected CSM release patterns |
| Transition approach | Disclosure of the transition approach adopted (modified retrospective, fair value approach or full retrospective) |
| Accounting policy choice for Insurance Finance income and expense (IFIE) | Disclosure of the election as regards the presentation of insurance finance income or expense (i.e., whether in P&L or disaggregated between P&L and OCI). |
| Annual Cohort Exemption (EU Only) | Disclosure of the adoption of the exemption from the application of the annual cohort requirement provided for in the IFRS 17 as endorsed by the EU (EU-domiciled insurers only) |

| IFRS 9 | |
|---|---|
| Restatement comparative | Disclosure on whether or not the insurer will restate comparative information for IFRS 9 and/or the classification overlay approach |
| Classification overlay approach | Disclosure on whether or not the insurer will apply the classification overlay approach at initial application of IFRS 17 and IFRS9 |
| New accounting policies | Disclosure related to IFRS 9 key methodology's concepts such as financial assets measurement models, Expected Credit Loss (ECL) calculation and hedge accounting |

# Population

The table below includes the 25 listed insurance and reinsurance groups selected across different geographical areas for which we have analyzed their published interim financial statements as of 30 June 2022

| Ref. | Entity | Area | Segment |
|---|---|---|---|
| 1 | Manulife Financial Corporation | Americas | Life and Health |
| 2 | SunLife Financial Inc. | Americas | Life and Health |
| 3 | AIA Group Limited | APAC | Life and Health |
| 4 | Ping An Insurance | APAC | Composite |
| 5 | QBE Insurance Group Limited | APAC | Composite |
| 6 | Liberty Holdings Limited | Africa | Life and Health |
| 7 | Old Mutual Limited | Africa | Life and Health |
| 8 | Sanlam | Africa | Composite |
| 9 | Aegon Group | Europe | Composite |
| 10 | Allianz Group | Europe | Composite |
| 11 | Aviva Plc | Europe | Composite |
| 12 | AXA | Europe | Composite |
| 13 | Assicurazioni Generali S.p.A. | Europe | Composite |

# Population (cont'd)

| Ref. | Entity | Area | Segment |
|---|---|---|---|
| 14 | Hannover Re | Europe | Reinsurance |
| 15 | Intesa Sanpaolo Vita S.p.a. | Europe | Life and Health |
| 16 | Legal and General Group Plc | Europe | Composite |
| 17 | Lloyds Banking Group | Europe | Composite |
| 18 | M&G Plc | Europe | Life and Health |
| 19 | Mapfre Group | Europe | Composite |
| 20 | Munich Re | Europe | Reinsurance |
| 21 | NN Group N.V. | Europe | Composite |
| 22 | Phoenix Group | Europe | Life and Health |
| 23 | Prudential Plc | Europe | Life and Health |
| 24 | SCOR | Europe | Reinsurance |
| 25 | Zurich Insurance Group | Europe | Composite |

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ED None