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IFRS 17...we made it! What have we learnt from reporting to date?

Presentation speakers:

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Also on panel:

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Agenda

- How are IFRS 17 implementations going?
- Observations from UK HY23 disclosures
- Lesson learnt, expectations for FY23 and looking ahead
- Analysts' views
- Panel discussion
- Appendix - Comparison of selected HY23 disclosures & IFRS 17 metrics

Please note:

- *The views expressed in this session are those of the authors and do not necessarily reflect the views of their employers or the IFOA / its Financial Reporting Group.*
- *The panel discussion will be held under the Chatham House rule: participants are free to use the information, but neither the identity nor the affiliation of the speakers or any other participants may be revealed.*



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2023 WTW Global IFRS 17 Survey - Key Findings



Global programme cost estimate USD 21-27bn



2023 reporters publishing, with much still to do



BAU challenges for 2023 reporters



Understanding & explaining results difficult



Strategies and dividend paying capacity unaffected



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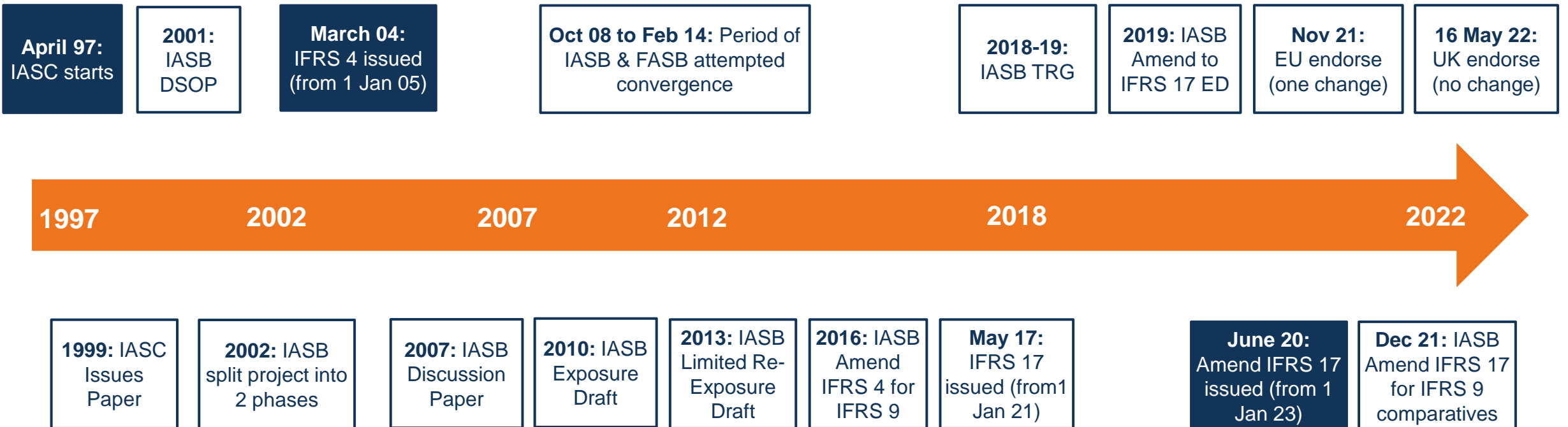


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Observations from UK HY23 disclosures



What a journey to 2023 !



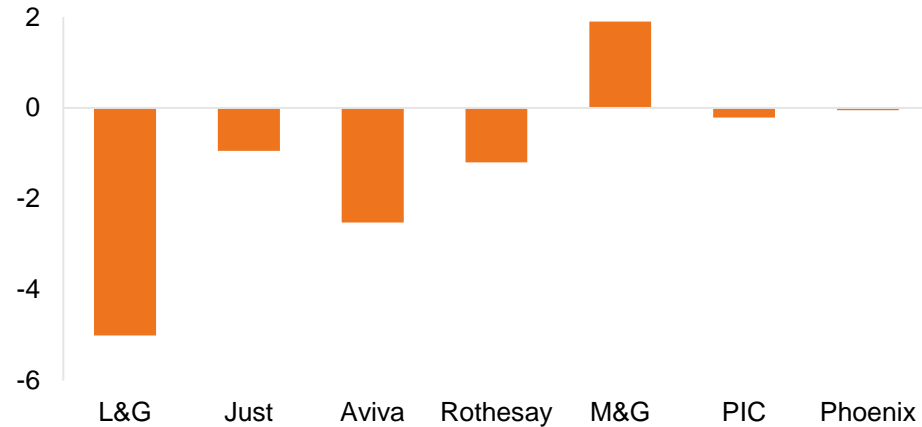
Overall observations

1	Statement that no impact expected on strategy, solvency, cash or dividends
2	Extended reporting timeline at HY23
3	Different levels of IFRS 17 disclosure at HY23 (as expected)
4	Challenge to compare/contrast the impact on transition to IFRS 17
5	Some divergence in assessing in-period IFRS performance
6	Focus on CSM growth in-period is common
7	Adjusting IFRS equity is common
8	Some differences in IFRS 17/9 methodology

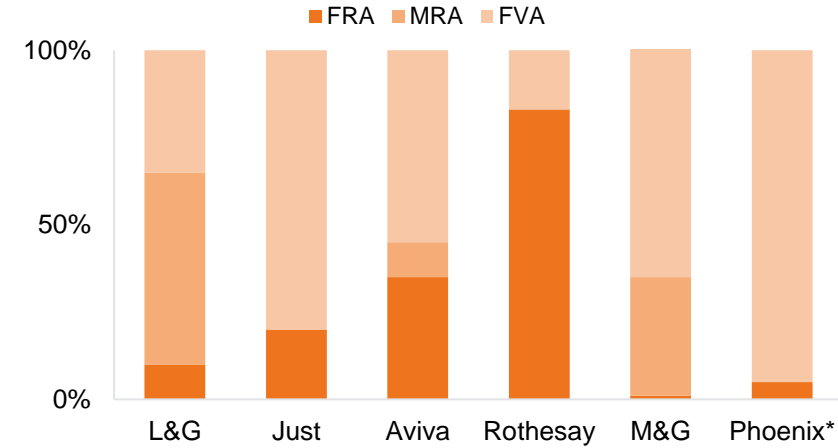


What was the impact on adopting IFRS 17?

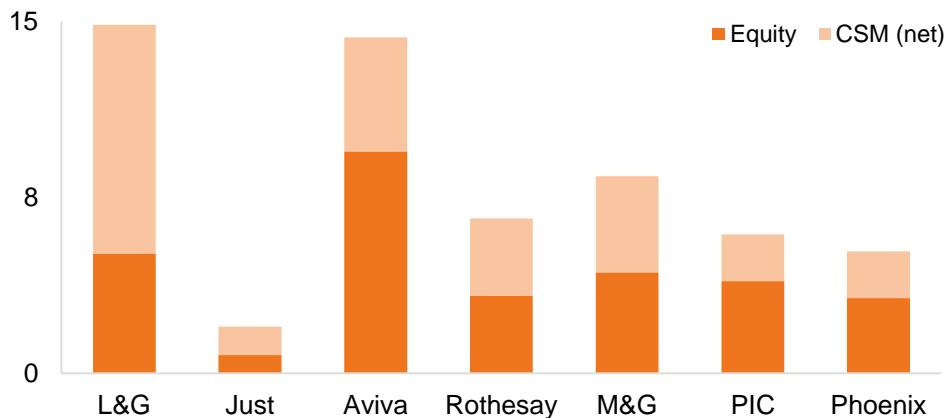
Change in equity at transition (£bn)¹



% of net CSM at transition by method



Adjusted equity at FY22 (£bn)²



Risk adjustment calibration

Insurer	'1 year' view	'To ultimate' view
L&G	85 th	Not disclosed
Just	c.90 th	70 th
Aviva	85-90 th	c.70 th
Rothesay	>90 th	c.65 th
M&G	75 th	Not disclosed
PIC	85 th	Not disclosed
Phoenix	80 th	Not disclosed



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Annuity observations

Assets: Classification & new business

- Amortised cost/OCI assets to match the CSM:
 - L&G: Reclassified c£5bn of assets on adoption (1 January 2022).
 - Just: Purchased c£2bn of gilts in 2023.
- Using a target asset mix for NB POS CSM is common together with a subsequent period of deployment.

Extent of investment impacts & 'mismatches'

- Extent of impact on IFRS-investment P&L depends on hedging strategy (e.g., Solvency II vs. IFRS vs mix).
- Low locked-in rates (vs. current rates) results in a counter-intuitive P&L 'mismatch' (e.g., for changes in longevity).

CSM release

- Consistency across in-period payment service.
- Where disclosed, differing approaches to weight services for deferred annuities (e.g. 'target' CSM, 'equivalent service' etc.).
- Amortisation rate will depend on various factors (e.g.: approach, age, mix etc.).

Other notably points

- Mixed approaches to expense cash flows.
- Where stated, the transfer to buy-out is treated as a continuation and not a derecognition.
- Some undertook a capital reorganisation for subsidiaries while one will revert to UK GAAP.



With-profits & unit linked observations

Classification & options

- WP and UL typically stated to be VFA eligible, but Aviva note that certain GAO products are not.
- Hybrid classification change so unit linked component is in IFRS 17 (e.g., LBG: c£4bn & Phoenix: c£5bn as at 1 January 22).

With-profit approaches

- All insurers recognised equity at transition.
- Difference in open vs closed fund treatment (e.g., underlying items, variable fee, treatment of the estate (s/h's vs. current/future p/h's) & mutualisation).
- Illiquidity premium typically c.75% of market premium.

CSM release

- Investment service typically based on asset shares & unit funds.
- Contrasts with continental Europe where an *additional 'real world'* service identified; and in Asia where the service is noted to be *'constant over time'*.

Other notably points

- Mixed take-up of the risk mitigation option (e.g., Aviva & LBG for certain risks; while M&G & Phoenix did not).
- Depending on relative size of CSM at transition, loss components could exist (one insurer).



FRC Thematic Review of IFRS 17 disclosures




15 November 2023

“Overall, we were pleased with the quality ... however we did identify areas for improvement and believe almost all companies within our sample [of 10] could make improvements ...”

Review focused on the adequacy of disclosures & not reasonableness of assumptions/ methods, across:

- Transition
- Accounting policies, judgements & estimates
- Measurement: cash flows, discounts rate, RA & CSM
- VFA & PAA eligibility
- IFRS 9
- Alternative Performance Measures (APMs) etc.

Over 50 findings classified as follows:

-  A good quality application that we want other companies to consider when preparing their annual reports.
-  Opportunities for improvement by companies to move them towards better practice.
-  An omission of required disclosure or other issue. We want companies to avoid such issues in their annual reports.

Further thematic to be performed on FY23 disclosures.

Areas of ‘omission’ included:

Transition: *“While it was clear which transitional approach had been used & why, quantitative information was not always provided to fully explain the impact ...”* and *“Nearly all the companies that applied the FV approach on transition did not explain the key judgements, assumptions & valuation inputs ...”*

Granularity: *“... we recognise that the disclosure requirements for interim ... are not as detailed or prescriptive as those for [full year], the lack of disaggregation meant that the full extent of the impact of IFRS 17 was not always clear.”*

APMs: *“Several companies ... did not explain how the use of APMs had changed [on adoption] or disclose the impact on the value of APMs, or on trends ...”*

Tax: *“Most .. did not explain the tax impact of the adoption of IFRS 17. ... Where the effect is material, we expect companies to adequately explain the key drivers impacting the current and deferred tax balances.”*



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Lesson learnt, expectations for FY23 and looking ahead



Lessons learnt, expectations for FY23 & looking ahead

What happened?

- Hard work across multiple periods!
- Underestimated complexity, scale & cost?
- Tactical solutions & manual workarounds
- Implementation simplifications
- Data sourcing and flows
- Audit challenge

What are the 'optimisation' priorities?

- Complete transition to BAU
- Secure WDT
- Strengthen controls
- Transition to end-state
- Address technology & data deficit
- Drive insights
- But change fatigue, cost, loss of knowledge ...

What are the expectations for FY23?

- Full IFRS 17 disclosures (incl. FRC themes)
- Subsidiary IFRS reporting (where applicable)
- Increased understanding of results?
- Period of stability or increased alignment?

What are the future development?

- Global convergence (IFRS/EU-IFRS/US GAAP)
- IASB IFRS 17 PIR (2025-26)
- UKEB to conclude IFRS 17 review by 1 Jan 28
- Future of UK GAAP – timing of review tbc



Analysts' views vary considerably among themselves, over time, and across life and non-life



Source: WTW Pulse Survey of insurance analysts on IFRS 17 disclosures (June 2023)



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Panel discussion

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Appendix

Comparison of selected HY23
disclosures & IFRS 17 metrics



What was disclosed at HY23?

Mixed levels of disclosure as expected and comparability a challenge, more to come at FY23 ...

Component	L&G	Just	Aviva	Rothesay	M&G	PIC	Phoenix
Date of release	15 Aug	15 Aug	16 Aug	19 Sept	20 Sept	27 Sept	18 & 28 Sept
New accounting pols	✓	✓	✓	✓	✓	Some	✓
New significant judgements & estimates	Some	✓	✓	✓	✓	Some	✓
Restate by balance sheet line item	✗ (equity walk)	✓	✓	✗ (equity walk)	✓	✗ (equity walk)	✗ (equity walk)
Transition approach	✓	✓	✓	✓	✓	✓	✓
Transition: Fair value assumps. & sensitivities	✗	✓	Some	✗	✓	✗	✗
Income statement notes	Some	✓	Some	✓	Some	Some	Some
Analysis of change (BEL / RA / CSM)	CSM only	✓	✓	✓	✓	✗	✓
Discount rate (current)	T/D credit	T/D credit	T/D credit, B/U LQP not explicit	Spread added to risk-free	T/D credit & B/U LQP	T/D credit	Spread added to risk-free
Discount rate (lock-in)	✗	✓	✗	✗	✗	✗	✗
CSM release	✗	✗	✗	✓	✓	✗	✗
Sensitivities	✗	✓	✗	✓	✗	✗	✗



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What IFRS-related metrics are used?

- Solvency II based metrics unchanged by IFRS 17
- Two views on IFRS-performance metrics, but consistency on CSM within adjusted equity
- No metrics linked to the new concept of IFRS 17 insurance revenue

Metric	L&G	Just	Aviva	Rothesay	M&G	PIC	Phoenix
Operating profit	Adjusted OP	Underlying OP (exc. CSM)	Group Adj. OP	Adjusted OP (exc. CSM)	Adjusted OP	Adjusted OP (exc. CSM)	Adjusted OP
Other performance metric(s)	None	✓ (Adj. OP & Adj. Profit)	✓ (Group Operating Value Add)	None	None	✓ (Underlying profit)	None
Adjusted equity includes CSM net of tax	✓	✓	✓	✓	✓ (plus net of p/h amounts)	✓	✓ ¹
Return on equity	✓	✓	✓	×	×	×	×
Stock of future profit	CSM + RA	×	CSM + RA	×	×	×	×
New business value (NBV)	IFRS CSM + RA (net of reins.)	IFRS CSM (primarily) (net of reins.)	Solvency II based only	IFRS CSM (net of reins.)	Flows based only	NB component of Adjusted OP	Solvency II & flow based
IFRS profit	✓	✓	✓	✓	✓	✓	✓



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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Thank you

