IFRS 17 FY23 UK reporting analysis

April 2024

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1 Executive summary

Executive summary

First full set of IFRS 17 reporting

- Following interim 2023 reporting, which was discussed in our previous publication, insurers reported a full set of annual IFRS 17 financial statements for the first time in Q1 2024.
- Our analysis shows that there is limited new information on the key judgements at transition to IFRS 17 and the overall impacts (including comparatives) are well aligned to what was disclosed at interim 2023. There is however additional information through the mandatory IFRS 17 disclosures to aid in assessing performance over 2022/23.

This publication compares the disclosures made by 10 of the largest UK life insurers and 18 GI companies (with the majority headquartered in the UK/Europe). In both markets, the insurers have a significant UK presence.

Variety in disclosures remains

- Despite certain disclosures being mandatory at FY23, as expected we still observe divergences in approaches, calibrations and in the level of granularity adopted.
- Some stakeholders, such as analysts, will have been hoping for greater comparability post-IFRS 17, and whilst this is true to some extent when comparing UK insurers to insurers from other markets, there is still a high degree of divergence across insurers in the UK market.

We have compared key disclosure items and KPIs across the life and GI markets separately and outlined the key trends that we have observed and any developments since interim 2023.

Where do insurers go from here?

- We don't expect insurers to make wholesale changes over the short term as we expect they will want stakeholders to familiarise themselves with the new reporting. Over time though, we may see some convergence in approaches or calibrations.
- From a process perspective, insurers still face many challenges with working day timetables, moving fully onto strategic systems and in upskilling teams on the new IFRS 17 systems and to understand the results fully.

Although all insurers published IFRS 17 financial statements we believe further work will be required to reach the desired end state. Look out for further insights on this in our IFRS 17 post-implementation survey, which will be released later in April/May.

The end of March was a true landmark for insurers with the first annual reporting under IFRS 17. What a journey it has been since the original standard setting project started in 1997!

There has been a huge effort by so many over the past three to five years to get to this position and it's really exciting to finally see IFRS 17 fully in action. Looking ahead, I see a period of stability and remediation as everyone familiarises themselves with the new reporting and the many process challenges are addressed. Many insurers expect to invest further in finance transformation to unlock long term benefits from the significant investments made.

The FRC is expected to review the first annual IFRS 17 reporting following their initial assessment late last year. It will be interesting to hear their views."

Anthony Coughlan

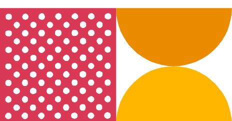
PwC IFRS 17 UK Reporting Lead

2 Developments since interim 2023

Developments since interim 2023

Investors and analysts are able to make better comparisons at YE23 compared to HY23 with the benefit of fuller disclosures, however inconsistencies remain and so stakeholders still need to do further work to understand the reasons for the differences and their impact.

- Interim financial reports do not have specific IFRS 17 disclosure requirements, which meant at HY23 insurers exercised judgement and discretion in determining which disclosures to provide. This led to variety in practice and it was challenging to draw quantitative comparisons between insurers.
- More information was provided by insurers at YE23 to comply with the full IFRS 17 disclosure requirements and thus increased comparability and consistency was observed. Most notably:
  - Insurance contract notes: These continue to be varied in terms of the level of detail shown for the opening to closing liability reconciliations, e.g. product splits and gross/reinsurance split, but there is increased consistency in the comparative time periods shown.
  - Risk Adjustment: For life insurers, increased consistency in the disclosure of percentiles both on a 1-year and to-ultimate basis. However, in the GI market, there remains varied practice in the disclosure of the risk adjustment confidence level (such as disclosing a range versus point estimate) which makes comparing companies challenging.
  - Sensitivities: Mostly consistent stresses produced by insurers but there is variety in the magnitude of each stress. IFRS 17 has resulted in insurers considering new sensitivities in their disclosures.



- Other observations relative to HY23:
  - Whilst the information presented on the IFRS 17 transition judgements (e.g. fair value calibration and sensitivities) was largely consistent with HY23 reporting, some limited new quantitative information was provided (e.g. one insurer's annuity fair value cohorts were onerous on a gross of reinsurance basis).
  - There are some limited changes in Adjusted Operating Profit (AOP) for individual life insurers though no systemic changes across the sector.
  - Where AOP includes the CSM release (as per IFRS 17 measurement) it is highly predictable which creates questions on whether the metric is helpful in assessing the in-period performance of management.
  - Differences in CSM release patterns can have a significant impact on the in-period IFRS 17 profit, but the underlying causes of the differences are challenging to understand due to limited information on amortisation approaches, for example the approach for deferred annuities.
  - Additional disclosures were provided by some insurers in light of the FRC IFRS 17 HY 2023 disclosure thematic review (e.g. risk adjustment confidence interval sensitivity).
  - There is mixed practice in post-IFRS 17 financial remuneration metrics amongst FTSE-listed life insurers.
  - In the GI market, most insurers continue to use KPIs focused on business volumes, revenue and profitability. However, the KPIs used vary, as does their definition. Whilst IFRS 17 generally has not resulted in previously used KPIs no longer being reported (such as GWP or COR), consistent with our observations at HY23, new KPIs are now being used (such as insurance revenue). All companies disclosed COR on a discounted basis (with some companies also disclosing the undiscounted COR).
  - Some insurers restated their YE22 IFRS 17 results (as presented at HY23) at FY23.

3 Life insurance market deep dive

Key observations

There is **limited new information** disclosed on the key judgements at transition to IFRS 17 for life insurers and the overall impacts are well aligned to what was disclosed at HY23. There remains **some variability** in the granularity of published disclosures and in the approaches and calibrations to key metrics and KPIs.

Key metrics

- At FY23, *most insurers have maintained the approach to presenting Adjusted Operating Profit (AOP)* they set out at HY23, with a limited number of minor adjustments made to clarify assumptions and/or exclusions and, in some cases, to align more closely with peers.
- We observed the *continued importance of the Adjusted Shareholder Equity metric* which provides more comparability across insurers, as it removes any differences in the equity position at transition to IFRS 17 from the specific transition approaches or calibrations selected. Some insurers have made additional adjustments, such as removing policyholder CSM for non-profit business in with-profit funds, or have included the adjusted shareholder equity in the denominator of their leverage ratio. Most insurers have disclosed an increased adjusted shareholder equity as a percentage of prior year, reflecting growth in the business.
- A minimal amount of onerous business was written in 2023. Across the UK market, the loss components recognised at year end is negligible compared to the CSM and, in some cases insurers have not recognised a loss component at all (e.g. monoline annuity writers).
- For most listed life insurers there have been changes to the existing financial measures used to determine the remuneration for Directors so as to reflect the impact of IFRS 17. However, *there remains mixed practice in the financial measures used by each insurer*.

Extent of disclosures

- We continue to observe different levels of granularity (e.g. product splits and gross/reinsurance split) in the disclosures of the analysis of change in liabilities. This reflects how insurers manage their business and materiality.
- At FY23 we observed *an improved alignment (relative to HY23) in disclosure of the risk adjustment* with most life insurers including both the 1-year and ultimate view percentile. There were limited changes to the disclosed percentiles since HY23, however, the calculation approaches continued to vary across insurers.
- For all annuity writers, the low locked-in discount rates compared to current rates *results in a counter-intuitive P&L 'mismatch' from longevity releases* (i.e. a release in the best estimate liabilities results in an IFRS loss due to the CSM).
- The FY23 disclosures provided limited new information on the approach to release the CSM relative to the HY23 disclosures. For most insurers, approximately 25% of the net CSM is expected to be released over the next 5 years. However, given the large CSM balances for annuity writers, small changes in amortisation profile can have a large impact on the in-year profit release, *therefore we expect the CSM maturity profiles to continue to receive attention from analysts*.
- Sensitivities were provided by all insurers at FY23 (HY23: virtually none) and there was broad consistency in the type but some variety in the magnitude of each stress. As the impacts are not necessarily linear, it is difficult to make a direct comparison.

Fair value approach on transition

Where insurers have adopted the fair value approach for determining the CSM at transition, there was limited additional information provided at FY23, relative to HY23, to assess the strength of the calibration.

Adjusted operating profit

In our previous publication based on insurers' HY23 results, we referenced the adjustments life insurers made to their definition of Adjusted Operating Profit (AOP, a key Alternative Performance Measure) given the introduction of IFRS 17. Whilst a number of the adjustments made prior to the implementation of IFRS 17 remain unchanged, such as the exclusion of one-off project costs and M&A activity, we observed a number of new adjustments that were made as a result of IFRS 17.

For FY23 most insurers have maintained the approach they set out at HY23, with a limited number of minor adjustments, set out in this slide and the next. Changes since HY23 include:

- Aviva introducing an adjustment to exclude the mismatch from non-profit business in with-profit funds, similar to the adjustment applied by M&G and Phoenix.
- Clarification that LBG calculates VFA balances using long-term (real world) financial assumptions.
- Clarification that L&G excludes the locked in versus current mismatch for GMM business.
- Phoenix has adjusted the risk-free rate used in the expected return, excluded the discount rate mismatch on an internal pension buy-in, and refined the approach for asset trading profit.
- M&G has introduced a new APM called 'operating change in CSM'.

Adjustment	Description	Aviva	Just	L&G	LBG	M&G	PIC	Phoenix	Rothesay
Exclude CSM	Recognise the profit from new business and include the impact of demographic assumptions changes in AOP. The CSM amortisation from in force business is accordingly adjusted.	╳ [1]	✓	╳	╳	╳ [1]	✓	╳	✓
Adjust reinsurance	Adjust reinsurance by recalculating the amounts on a consistent basis with the gross insurance contracts.	╳	╳	✓ [2]	╳	╳	╳	╳	╳

Source: PwC analysis and interpretation of FY23 and related external disclosures

Exclude CSM

[1] As mentioned in our HY23 report, Aviva defined a new APM known as 'Operating Value Added' which is adjusted operating profit plus the operating change in the CSM, which achieves a similar outcome. M&G has also defined for FY23 a new APM known as 'Operating change in CSM' which when combined with AOP is a similar metric to that introduced previously by Aviva.

Adjust reinsurance

[2] L&G removes the mismatch when reinsurance gains cannot be recognised to offset any inception losses on the underlying contracts where they are recognised before the new reinsurance agreement is signed.

Key:

✓ = AOP includes this adjustment

╳ = based on public disclosures this adjustment is not made

Adjusted operating profit (continued)

Adjustment	Description	Aviva	Just	L&G	LBG	M&G	PIC	Phoenix	Rothesay
Calculate VFA balances using long term ('real world') financial assumptions.	Allowing for expected real world returns in assessing both the CSM release and the shareholders' share.	✓ [3]	N/A	N/A	✓ [4]	✓ [5]	N/A	Not explicit [6]	N/A
Exclude locked-in CSM mismatch for GMM.	For GMM business (notably annuities), the mismatch due to changes posted to the the CSM using locked-in rates is excluded from AOP.	╳ [7]	N/A	✓	╳ [7]	✓	N/A	✓	N/A
Other adjustments.	Various, see notes.	✓ [8,9,10]	✓ [10]	✓ [9,10]	✓ [10]	✓ [8,9,10,11]	✓ [10]	✓ [8,9,10,11]	✓ [10]

Source: PwC analysis and interpretation of FY23 and related external disclosures

Long term financial assumptions

[3] Aviva FY23 report (section 4.05): 'Non-operating changes in the CSM consist of investment variances, economic assumption changes. … For contracts measured under the VFA, variance between the expected return on the shareholder share of underlying assets and the actual return are reported as non-operating changes in CSM.'

[4] LBG FY23 report (page 64): 'Management believes that it is appropriate to disclose the division's results on the basis of an expected return. The impact of the actual return on these investments differing from the expected return is included within insurance volatility. Insurance volatility on business accounted for under the Variable Fee Approach (largely unit-linked pensions business) is deferred to the CSM, other than where the risk mitigation option is applied. Policyholder interests volatility is driven by the additional management charges made to some life product customers to cover the extra tax on their products. Underlying profit therefore includes the expected charge or credit for the year, with the variance to expectation included in volatility'

[5] M&G FY23 report (pg 235): 'The expected CSM release for the period is calculated as the CSM at the start of the period updated to reflect long-term expected investment returns multiplied by the expected amortisation factor for the period. … Adjusted operating profit .. in the With-Profits Fund also includes the expected investment return for the shareholder's share of the IFRS value of the excess assets in the Fund.'

[6] The specific treatment of the CSM in AOP is not explicit in the Phoenix disclosures.

[7] Aviva explicitly includes this item in AOP while LBG was not explicit in its disclosures.

Key:

✓ = AOP includes this adjustment

╳ = based on public disclosures this adjustment is not made

Other adjustments

[8] Aviva, M&G and Phoenix explicitly exclude the IFRS 17 mismatch arising from non-profit business in a with-profit fund, that is the requirement to measure the non-profit liabilities using IFRS 17 while the interaction with the with-profit contracts (be that current or future policyholders, where applicable) is on a fair value basis.

[9] Where indicated, a number of annuity writers are including the impact of asset optimisation actions in AOP.

[10] All insurers note that the annuity new business CSM (or value) is determined based on a target asset mix, albeit there is limited disclosure on the transition to the assets achieved.

[11] M&G included the results of an intercompany buy-in transaction (that is otherwise eliminated under IFRS). Phoenix excluded the discount rate mismatch on an internal pension buy-in

Financial measures used for remuneration post-IFRS 17

The table below shows the various financial performance measures that are used by the main FTSE-listed life insurers to determine the remuneration for Directors. For most insurers there have been changes to the existing measures used so as to reflect the impact of IFRS 17. However, there remains mixed practice (including Phoenix with no IFRS-related measures).

	IFRS-related				Other metrics			
Insurer	**Adjusted operating Profit**	**Net movement in CSM**	**EPS**	**ROE**	**Cash remittances / generation**	**Operating surplus / capital generation**	**New business Value**	**Cost reduction**
Aviva	✓	x	x	x	✓	✓[2]	x	✓
Just	✓[4]	x	x	✓	x	✓	✓[3]	x
L&G	✓	✓	✓	✓	x	✓	✓[3]	x
M&G	✓[1]	✓[1]	x	x	x	✓	x	x
Phoenix	x	x	x	x	✓	x	✓[3]	✓
Prudential	✓	x	x	x	✓	✓	✓[5]	x

Source: PwC analysis and interpretation of FY23 and related external disclosures

[1] Rather than having ‘AOP’ and ‘Net movement in CSM’ as two separate performance measures, M&G have one based on the combined total.

[2] Aviva bases its performance measure on Own Funds generation rather than capital generation, this excludes operating movements in the SCR.

[3] For L&G it is defined as the margin on Solvency II new business, whilst for Phoenix it is defined as total cash generation that is expected to arise in future years as a result of new business transacted in the current period (undiscounted). In addition, Just uses two measures, new business profit (IFRS) and new business strain (Solvency II).

[4] Just uses Underlying Operating Profit which excludes CSM and assumptions changes

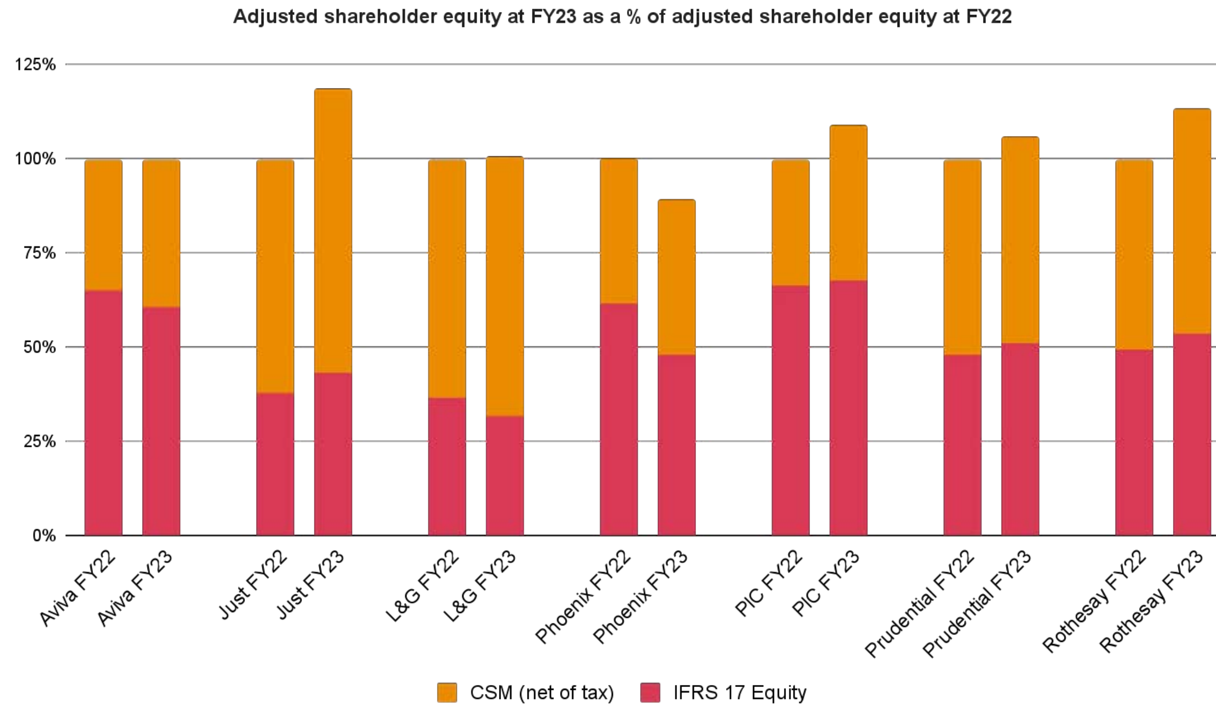
[5] Prudential calculates new business profit on an EEV (European Embedded Value) basis.

Evolution of adjusted shareholder equity

The adjusted shareholder equity is generally defined as the IFRS shareholder equity plus the CSM (net of tax). Some insurers made additional adjustments, such as removing policyholder CSM for non-profit business in with-profit funds (where applicable).

This metric may provide more comparability across insurers, as it removes any differences in the equity position which may have arisen at transition to IFRS 17 from the specific transition approaches or calibrations selected. Where the adjusted shareholder equity has grown since FY22, this has typically been where the CSM net of tax has increased due to strong new business volumes.

Some insurers have also included the adjusted shareholder equity in the denominator of their leverage ratio, with Phoenix clarifying its Fitch leverage ratio includes the CSM (net of tax) and a measure of the policyholders' share of the with-profit estate.



Source: PwC analysis and interpretation of FY23 and related external disclosures

Notes:

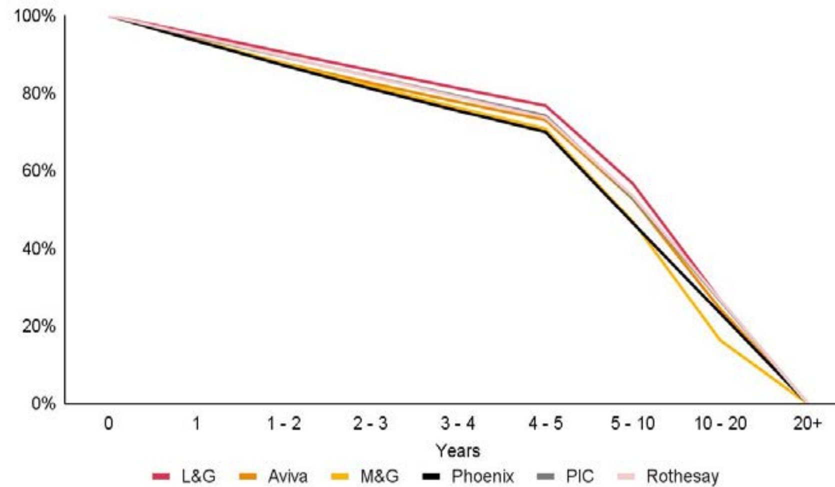
1. Total adjusted shareholder equity at FY22 is set as 100% in the graph.
2. M&G has been excluded from the graph since neither the adjusted shareholder equity nor the CSM net of tax was explicitly disclosed in its accounts.
3. In order to produce this graph, we have excluded the following:
   - Aviva, L&G, Phoenix's IFRS Equity excludes preference shares, Tier 1 notes and non-controlling interests (where applicable).
   - Just's IFRS Equity excludes net intangible assets.
   - PIC & Rothesay's IFRS 17 Equity excludes restricted Tier 1 debt.

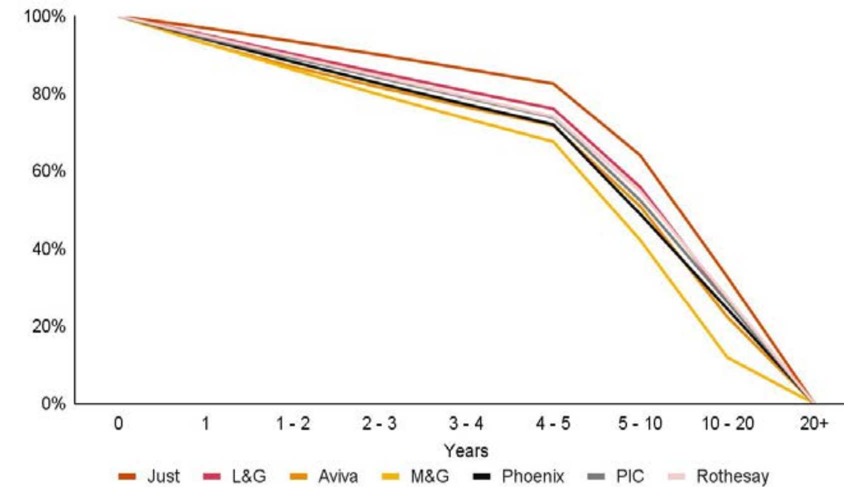
CSM emergence for annuities

The charts below show the release of the CSM for annuities gross and net of reinsurance as disclosed in the mandatory disclosures (per IFRS 17 paragraph 109). There will be various factors driving the patterns, e.g. age of business, mix of immediate/deferred annuities, approach (notably weighting of services for deferred annuities and rate to discount coverage units), level/type of reinsurance etc. The FY23 disclosures provided no new information on the amortisation approach relative to HY23.

25%

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





Source: PwC analysis and interpretation of FY23 and related external disclosures

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

Notes:

1. Aviva reflects the 'Life Risk' segment which includes protection with annuities (as not split out separately).
2. Just not included within the gross of reinsurance chart as it did not present figures showing solely the gross impact after the effect of interest accretion.
3. PIC grouped the CSM release for Years 1-5 within one category and Rothesay grouped Years 0-5. For the chart it is assumed that the CSM runs off in a straight line over this period for both insurers.
4. L&G FY23 RNS included an alternative net of reinsurance CSM emergence 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 charts.
5. PIC disclosed when it expects to recognise the remaining CSM in insurance revenue excluding future interest accretion. In the PIC disclosure, the sum of the CSM amounts across each maturity category is equal to the total CSM on the balance sheet at FY23.

How is the annuity CSM released?

For contracts that provide both insurance and investment services (e.g. deferred annuities), insurers need to weight the two services to derive the aggregate coverage units provided in each period. The table below sets out the approaches adopted by the main UK annuity writers. We observe that:

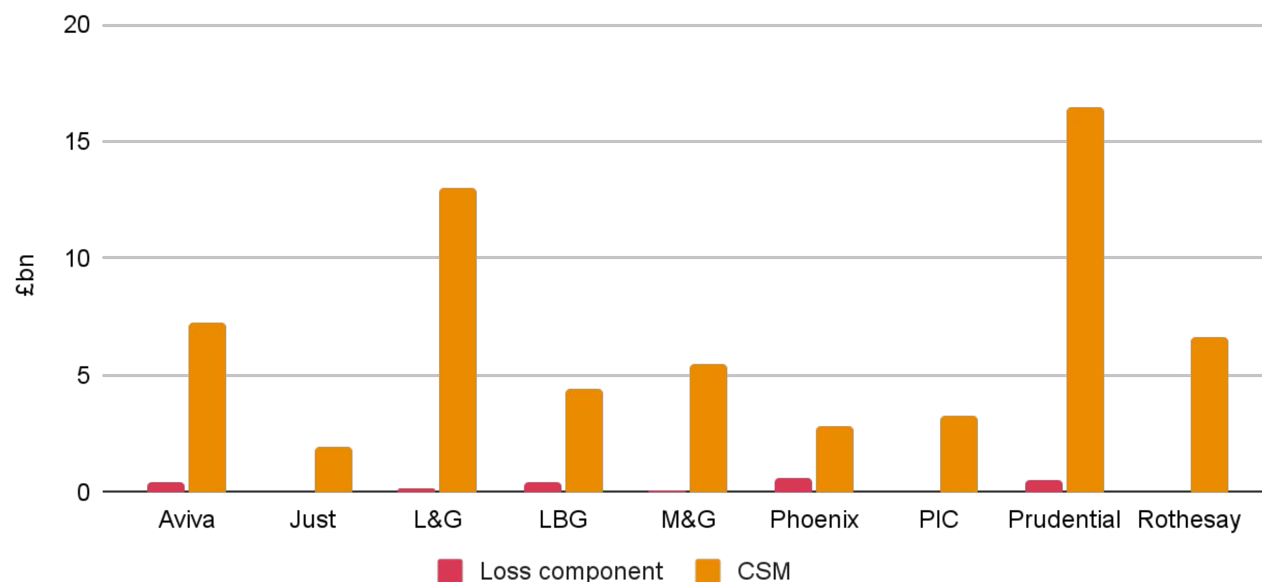
- Although the CSM release pattern is a primary driver of IFRS 17 profit, as expected there are differing approaches for deferred annuities.
- The level of disclosure varies across insurers with some being more explicit than others on specific aspects of the weighting approach.
- The amortisation rate also depends on various factors other than the approach, e.g.: age of business, mix of immediate/deferred annuities, etc.

Components	L&G	Just	Aviva	Rothesay	M&G	PIC [1]	Phoenix
Driver in-payment Phase	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo	Annuity outgo
Driver in-deferment Phase	Expected return (backing assets)	Expected return (Backing assets)	Expected return (Locked-in)	'Value generated to p/h by investing deferred policy premiums …'	Transfer amount	Expected return (Transfer value)	Fund size
Weighting between phases	'Target' CSM	'Equivalent' service	'Target' CSM	'Target' CSM	Not disclosed	Same 'value' across phases (no explicit weighting)	'Consistent level of service' on transition [1]
Weighting locked or current	Not explicit	Current	Not explicit	Not explicit	Current	Current	Not explicit
Discounting	✓ (Rate not explicit)	✓ (Locked-in)	✓ (Rate not explicit)	Not explicit	✓ (Locked-in)	✓ (Locked-in)	✓ (Locked-in)

Source: Analysis and interpretation of selected life insurer disclosures at HY 2023 including earlier public announcements, together with any additional disclosure at FY 2023.
[1] New information at FY 2023 compared to HY 2023.

Extent of onerous contracts

The chart and table below shows the comparison between the total loss component and the total CSM at YE23 and the disclosed amounts for the loss component and CSM arising from new business in the period. The figures are shown for life business only and on a net of reinsurance basis (i.e. CSM is shown as gross CSM less reinsurance CSM and loss components are shown net of reinsurance loss recovery components).



Insurer	New business loss component (£m)	New business CSM (£m)
Aviva	Nil	413
Just	Nil	417
L&G	Nil	1,185
LBG	71	92
M&G	Nil	165
Phoenix	4	400
PIC	Nil	337
Prudential[1]	5	1,761
Rothesay	Nil	190

Source for all charts: PwC analysis and interpretation of FY23 and related external disclosures
¹ Figures disclosed in Prudential's report are in US dollars. We have converted the figures to GBP using the exchange rate as at 31/12/23..

A minimal amount of onerous business was written in 2023. Across the UK market, the loss component recognised at FY23 is negligible compared to the CSM, and in some cases insurers have not recognised a loss component at all.

Sensitivity analysis

Key themes

- Whilst almost all insurers produced consistent stresses, there is *considerable variety in the magnitude* of each stress. As the impacts are not necessarily linear, it is difficult to make a direct comparison.
- For longevity, due to the mismatch in the impact between locked-in and current rates, all insurers saw a *counter-intuitive* reduction in profit from longevity assumption releases in FY23. This is also observed in the sensitivities.
- Economic sensitivities (e.g. interest rates etc.) are *influenced by the hedging approach* adopted by insurers. This is typically to hedge on a Solvency II basis rather than IFRS and can result in volatility in the IFRS result at a given point in time.

Insurer	Annuitant mortality (Base)	Annuitant mortality (Trend)	Credit default	Risk adjustment confidence interval
Aviva	Base Mortality: –2% ~c3% decrease in Net CSM	Not disclosed	Not disclosed[1]	CI: +2.5% (Ultimate) ~c8% increase in Net RA[2]
Just	Base Mortality: –5% ~c9% decrease in Net CSM	Trend: +10% ~c5% decrease in Net CSM	Default: +10bps ~£170m decrease in PBT (Pre)	CI: +5% (Ultimate) ~c30% increase in Net RA
LBG	Base Mortality: –5% ~c1% increase in PBT[5]	Not disclosed	Not disclosed[1]	Not disclosed
L&G	Base Mortality: –1% ~c2% decrease in Net CSM	Not disclosed	Default: +10bps ~£494m decrease in PBT (Post)	CI: +1% (One Year) ~c3% increase in Net RA
M&G	Base Mortality: –1% ~c5% decrease in Net CSM[3]	Trend: +0.25% ~c14% decrease in Net CSM	Default: +5bps ~39m decrease in PBT (Post)	CI: +5% (One Year) ~18% increase in Net RA
Phoenix	Base Mortality: –5% ~c11% decrease in Net CSM[4]	Not disclosed	Not disclosed[1]	Not disclosed
PIC	Base Mortality: –5% ~c4% decrease in Net CSM	Trend: +0.1% ~c2% decrease in Net CSM	Not disclosed[1]	Not disclosed
Rothesay	Base Mortality: –5% ~c6% decrease in Net PBT[5]	Not disclosed	Not disclosed[1]	Not disclosed

Source: PwC analysis and interpretation of FY23 and related external disclosures

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

[2] The figures for Aviva relate to the impact for Life Risk and Participating business.

[3] For M&G, the change in the CSM has been derived assuming the majority of the impact is driven by Annuity and other long-term business.

[4] For Phoenix, the change in the CSM has been derived assuming the majority of the impact is driven by Retirement Solutions business.

[5] For LBG, 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.

Discount rates

Annuities: FY 23 credit default allowance

Allowance for expected and unexpected default risk (in aggregate):

Insurer	Corporate bonds	Mortgages	ERMs
Aviva	36 bps	89 bps	25 bps
Just	58 bps (main life subsidiary)		
L&G	40 bps [1]	Not disclosed [1]	
M&G	56 bps (shareholder annuities)		
Phoenix	Not disclosed		
PIC	50 bps		
Rothesay	Not disclosed		

The charts on this page outline key aspects of the discount rate assumptions disclosed by UK life insurers. In summary, we observe:

- There is considerable variability in the credit default allowances applied in the top down discount rates for annuity providers, reflecting the diversity in asset portfolios across the market.
- The same point is observed in the implied illiquidity premium used by annuity providers. This will predominantly reflect the credit default assumptions, as well as the asset allocations assumed in the reference portfolio for each insurer.
- Whilst there is limited data on the illiquidity premium applied when insurers use the bottom-up discount rate (for non-annuity business) we do observe that it is considerably lower than for annuity business, as expected.
- The implied locked in rate for annuity cohorts transitioned to IFRS 17 under fair value was c.2-2.3% in 2023, although it was considerably higher for Aviva.

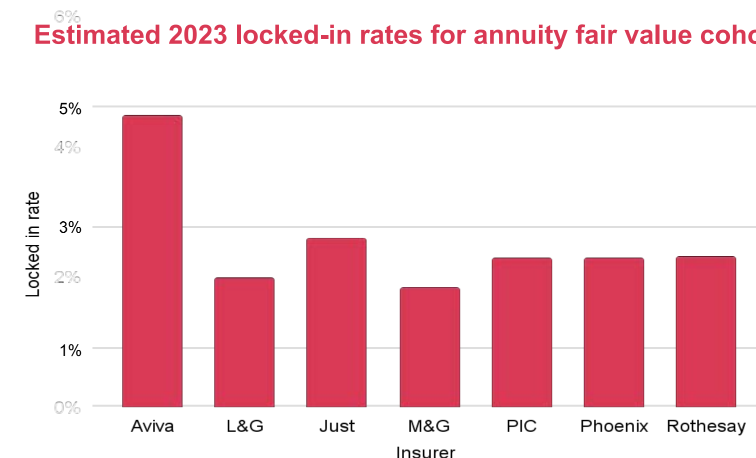
Annuities: FY 23 estimated illiquidity premium

Insurer	Illiquidity premium (bps)
Aviva [2]	c. 170-180 bps
Just [2]	c. 210-215 bps
L&G [2]	c. 160 bps
M&G [2]	c. 168 bps
Phoenix	173 bps
PIC	c.160 bps
Rothesay	141 bps

FY 23 estimated illiquidity premiums for non-annuity business

Insurer	Illiquidity Premium
Aviva [3]	With-profits: c. 30-50 bps Protection: c. 30-40 bps
L&G [3]	Protection: c. 75 bps
M&G	With-profits: 47 bps
Phoenix	With-profits: 20 bps / 107-173 bps (liquid / illiquid)

Estimated 2023 locked-in rates for annuity fair value cohort [4]



Source for all charts: PwC analysis and interpretation of FY23 and related external disclosures

[1] L&G: LTMs not disclosed as bps, but total allowance equating to £0.4bn is noted. For mortgages, whilst this was not explicitly mentioned, the 40 bps did cover 'direct investments'.
[2] Implied from disclosures by comparing shareholder annuities to unit linked or risk-free discount rate curves (Aviva, Just & M&G) or from graph of discount rates (L&G).
[3] Implied from disclosures by comparing WP and Protection contracts to unit linked or risk-free discount rate curves (Aviva) or from graph of discount rates for Protection (L&G).
[4] Rates are either from explicit disclosures or implied from interest accretion for fair value business in 2023.

Risk adjustment and transition fair value disclosures

Risk adjustment

At HY23 we noted that there was varied practice from life insurers in terms of whether a 1-year percentile, an ultimate view percentile or both were disclosed to the market. At FY23 we observe, as set out below, that most life insurers disclose both the 1-year and ultimate view percentile, and with most not making changes to the disclosed percentiles since HY23. Calculation approaches have continued to vary across insurers.

Risk adjustment percentile

Insurer	'1 year view' view	'To ultimate' view
Aviva	Not disclosed (HY 23: 85th-90th)	68th (HY 23: 70th)
HSBC	75th	Not disclosed for UK business
Just	c.90th	70th
LBG	90th	70th
L&G	85th	c.75th
M&G	75th	60th
Phoenix	80th (Gross)	61st (Gross)
PIC	85th	70th (HY 23: 68th)
Prudential	75th	Not disclosed
Rothesay	91st (HY 23: >90th)	65th

Fair value

Where firms have adopted the fair value approach for determining the CSM at transition, a fair value of the (re)insurance contracts needs to be determined in line with the IFRS 13 requirements (excluding the deposit floor). Given quoted market prices are not often readily available for such contracts, there are a number of judgements that companies need to make in order to arrive at an estimate. Various inputs, such as the solvency coverage ratio and the rate of return on capital as set out in the table below, will have a significant impact on the overall fair value.

Insurer	Solvency coverage ratio	Return on capital	Sensitivities included?
Aviva	160% – 180%	Not disclosed	No
Just	140%	8%	Yes
LBG	Not disclosed	Not disclosed	No
L&G[1]	Not disclosed	Not disclosed	Yes (IRR only)
M&G	135%	7%	Yes
Phoenix	Not disclosed	Not disclosed	No
PIC	Not disclosed	Not disclosed	No
Rothesay	Not disclosed	Not disclosed	No

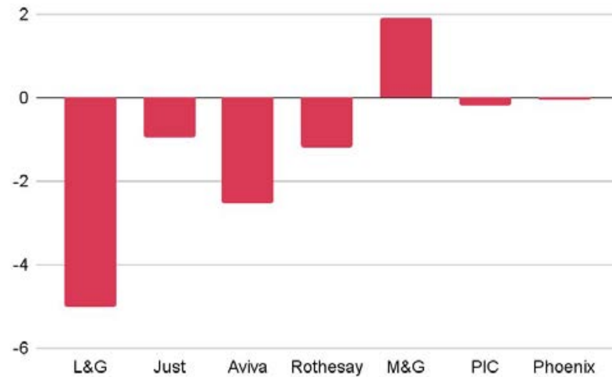
Reporting at HY23 provided limited quantitative information on the fair values at transition, so an assessment of the relative strength was not possible (e.g. FV as a % of BEL for applicable products). We observed one insurer provide further information at FY23, but on the whole, information regarding the assumptions used to derive transition fair value balances and the sensitivity to these assumptions was limited.

Source for all charts: Analysis and interpretation of selected life insurer disclosures at HY 2023 including earlier public announcements, together with any additional disclosure at FY 2023.

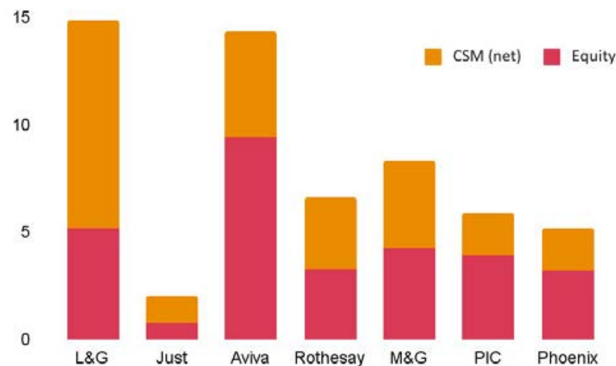
[1] New information at FY 2023 compared to HY 2023.

What was the impact on adopting IFRS 17?

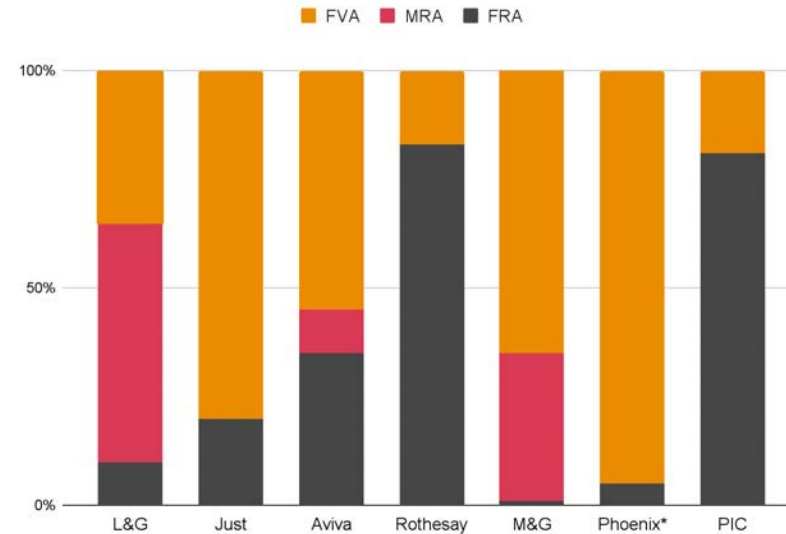
Change in equity at 1 January 2022 (transition) (£bn)[1]



Adjusted equity at FY 2022 (£bn)[2]



% of net of reinsurance CSM at transition by method[3]



The directional impact on transition to IFRS 17 are as expected. For example, a reduction in equity for annuities and vice-versa for with-profits. However, it is hard to assess the relative size of the impact as it depends on various factors including size/age, organic versus acquired contracts, transition method, calibration of fair value (where applied), size of IFRS 4 prudence margins etc. One annuity writer (PIC) had onerous fair value cohorts (i.e. loss components and no CSM), on a gross of reinsurance basis, on transition.

Source for all charts: Analysis and interpretation of selected life insurer disclosures at HY 2023 including earlier public announcements. There were no significant revisions at FY 2023 to revise this analysis.

[1] From HY 2023 interim disclosures and includes all business written but excludes any IFRS 9 impact.

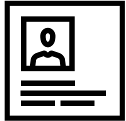
[2] From HY 2023 interim and earlier public announcements. The definition of adjusted equity is IFRS equity including the net of reinsurance and tax CSM.

[3] From HY 2023 interim disclosures. Note, FRA: Fully Retrospective Approach, MRA: Modified Retrospective Approach, and FVA: Fair Value Approach.

* Actual is 58% (FRA) & 42% (FVA). However, in the chart (and as presented by Phoenix) amounts relating to ReAssure acquired in 2020 and fair valued at that date are presented as FVA (rather than FRA).

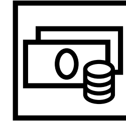
Observations on annuity approaches

We have summarised our other observations on the different approaches taken by life insurers on annuity business below.



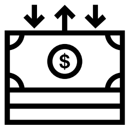
Assets: Classification and new business

- Two insurers reassessed the classification and measurement of some of the financial assets backing annuity liabilities in order to better match the CSM:
  - L&G: Reclassified c£5bn of assets on adoption as at 1 January 2022.
  - Just: Purchased £2.5bn of long-dated gilts held at amortised cost in 2023.
- It is also common for insurers to use a target asset mix for the new business point of sale CSM together with a subsequent period of expected deployment.



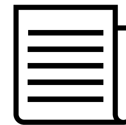
Extent of economic impacts and 'mismatches'

- The extent of the impact on economic profit or loss from IFRS 17/9 depends on the hedging strategy chosen by the insurers (e.g. Solvency II vs. IFRS vs. a mixed approach).
- The difference between the low locked-in rates and current market rates results in a counter-intuitive P&L 'mismatch'. This mismatch is particularly prominent for changes in longevity at FY23.



Mixed approaches to expense cash flows

- For some insurers the expenses that are 'directly attributable' and included in the IFRS 17 cash flows are similar to those in IFRS 4 and Solvency II. While, for others, the IFRS 17 expenses are less.
- At least one insurer includes amounts relating to investment activity (e.g. certain asset dealing and hedging costs) within insurance acquisition expenses.
- Some insurers post insurance acquisition assets for future sale costs (typically within insurance contract liabilities due to materiality).

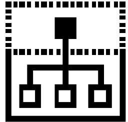


Other notable points

- All insurers (to the extent disclosed) treat the transfer of a bulk annuity scheme from buy-in to buy-out as a continuation and not a derecognition event.
- Some insurers undertook a capital reorganisation for certain subsidiaries while Phoenix reverted to UK GAAP for subsidiaries at FY23 (not specific to annuities business).

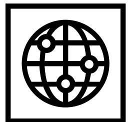
Observations on with-profit and unit linked approaches

We have summarised our other observations on the different approaches taken by life insurers on with-profit and unit linked business below.



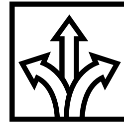
Classification & options

- Insurers typically stated that with-profit and unit linked products are VFA eligible, however Aviva noted that certain with-profit products are measured using the general model (e.g. where certain guaranteed annuity terms).
- Some insurers reclassified certain hybrid unit-linked contracts from IFRS 9 to IFRS 17. The impact of this reclassification was c£4bn for LBG and c£5bn for Phoenix as at 1 January 2022.
- Drawdown features were added in 2022 to existing LBG pension contracts. As a result, the existing contracts were derecognised and the modified contracts were recognised as new contracts. The contracts were modified throughout 2022 in line with the dates of policyholder communication of enhanced benefits. This change resulted in a £1.2bn loss in 2022 due to the increase in the CSM.



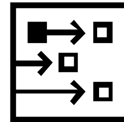
CSM release: UK vs Europe/Asia

- For the majority of UK life insurers, the investment service is based on asset shares (with-profits) and unit funds (unit-linked). This contrasts with similar products in continental Europe where an additional ‘real world’ service is identified and in Asia where the service is noted to be ‘constant over time’.



With-profit approaches

- All insurers recognised equity within their with-profit fund(s) on transition to IFRS 17. This represents the value for certain expected future shareholder transfers that were previously included within the liabilities (typically, unallocated divisible surplus) in IFRS 4.
- The relative size and complexity of each with-profit fund(s) typically determined the depth to which the IFRS 17 approach was disclosed. There appears to be differences between open and closed with-profit funds in the definition of underlying items and the variable fee, the treatment of the estate (i.e. between shareholders vs. current/future policyholders) and how mutualisation is allowed for. Some of these differences may be to do with the specific features of each with-profit fund.



Other notable points

- There has been mixed take-up of the risk mitigation option. For example, Aviva and LBG chose to apply the risk mitigation option for certain risks whereas M&G and Phoenix did not.
- Depending on the relative size of the CSM at transition, loss components could exist, which was the case for one insurer (Phoenix).

4 General insurance market deep dive

Key observations

We have reviewed a wide range of financial statements at FY23. We have considered a sample that includes companies headquartered within as well as outside of the UK, given the broad consistency across products. In total 18 general insurance (GI) companies (including composites and reinsurers) were included, with a majority headquartered in the UK or continental Europe with significant UK business.

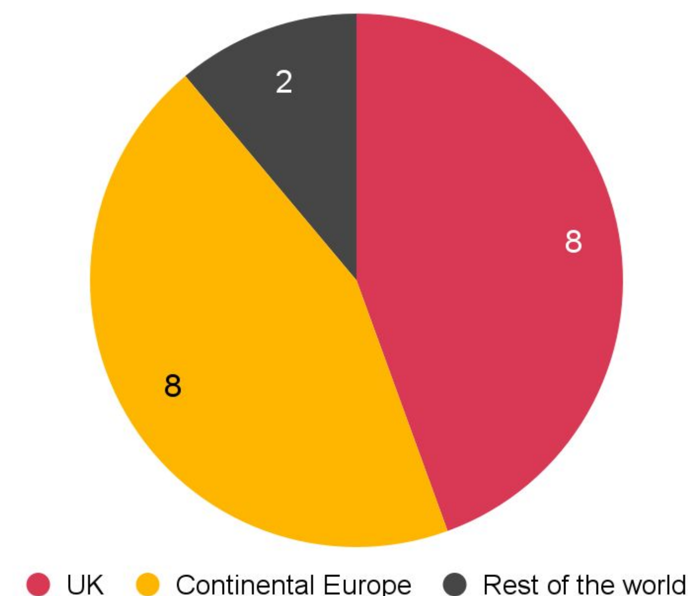
Key observations on key performance indicators (KPIs) and primary statements:

- Most companies continue to use KPIs which focus on business volumes, revenue and profitability. However, consistent with our observations at HY23, the KPIs used by different companies vary, as does their definition, making comparison between companies challenging.
- Whilst the transition to IFRS 17 generally hasn't resulted in previously used KPIs no longer being reported (such as GWP or COR), it has resulted in additional new KPIs being disclosed (such as insurance revenue). All companies disclosed COR on a discounted basis (with some companies also disclosing the undiscounted COR). This demonstrates alignment to the IFRS 17 income statement which companies are now measuring their performance against.

Key observations on insurance contracts disclosures include:

- The level of detail within the notes to the accounts varies. For example, for discounting, some companies have disclosed the yield curves used (risk-free rate and illiquidity premium separately) by duration and currency for each liability type (e.g. PPOs and non-PPOs). Others have disclosed just one yield curve.
- Over 70% of the companies have used either a confidence level or cost of capital approach to calculate the risk adjustment. For most companies, the risk adjustment uplift as a percentage of the present value of future cash flows related to incurred claims and on a net of reinsurance basis falls in the range of 2%-5%; however, for some companies, the uplift was much higher. Most companies disclosed a confidence level between the 81st and 90th percentile, with the next most used range being the 71st to 80th.
- IFRS 17 has resulted in insurers considering new sensitivities in their disclosures. One such example has been in respect of the risk adjustment (or the associated confidence level).

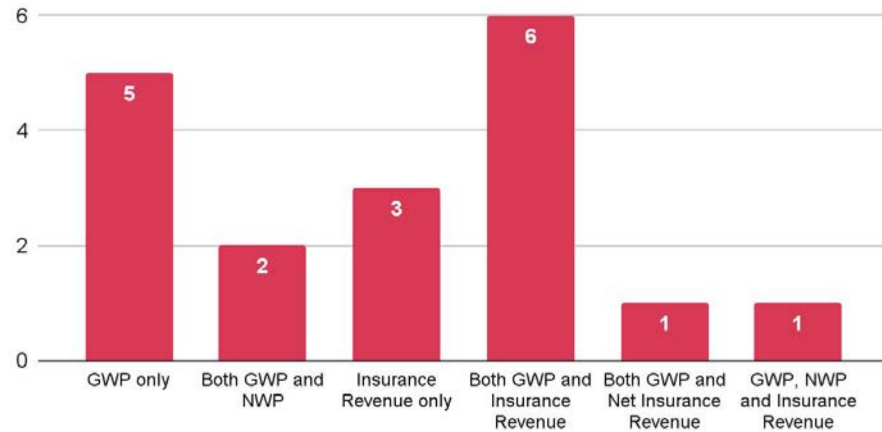
Companies reviewed by location of headquarters



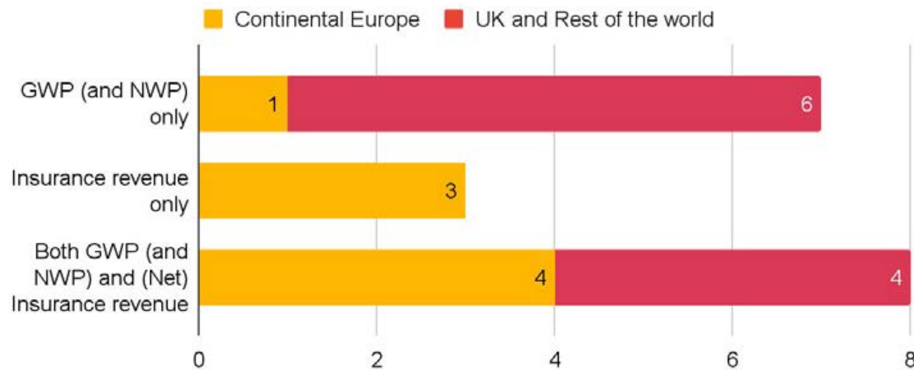
Source: PwC analysis and interpretation of YE23 and related external disclosures

Gross Written Premiums (GWP) and insurance revenue

Number of companies using GWP or insurance revenue as a KPI



Number of companies using GWP or insurance revenue as a KPI by region



Source: PwC analysis and interpretation of YE23 and related external disclosures

Consistent with our analysis of the HY23 financial statements, **GWP continues to remain a preferred revenue KPI** (or key metric) to analyse the performance of GI companies. For the companies considered in our sample, over 80% continued to refer to GWP (and/or NWP). Just under 40% disclosed GWP (and/or NWP) as a key financial metric alone (without IFRS 17 insurance revenue).

Previously GWP was a GAAP measure where companies provided detail on trading volumes on a written basis. However, under IFRS 17, GWP is no longer presented as a line item in the income statement. Therefore, it is now identified as an Alternative Performance Measure (APM).

Following the first year of IFRS 17 and due to its prominence on the face of the IFRS 17 income statement, we have observed insurance revenue being used by companies as a key financial metric. Three companies referred to insurance revenue only.

Almost 45% of companies disclosed insurance revenue (or net insurance revenue) alongside GWP (or NWP). This is likely to be due to the fact that GWP is still used internally by companies to monitor the growth of their business.

We observed one company using ‘turnover’ as a KPI and non-GAAP measure.

Other than to help describe insurance revenue (and reconciling between GWP and insurance revenue), we did not observe companies using IFRS 4 terminology (i.e. earned premiums).

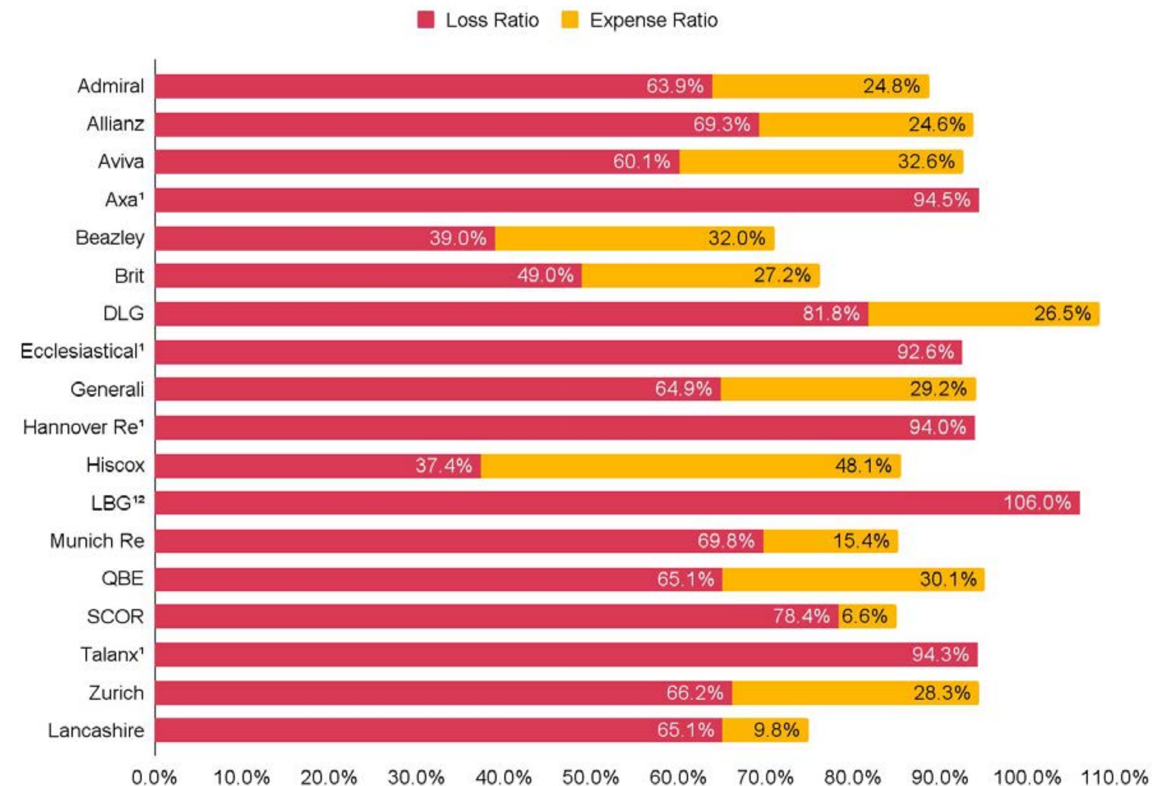
Divergence in the move towards using insurance revenue across regions

GWP (and/or NWP) was disclosed by all companies in the UK and rest of the world. Of the companies that only disclosed GWP (and/or NWP), over 85% were based in the UK or the rest of the world. In contrast to this, all three companies that referred to insurance revenue only, were based in continental Europe. One of these companies stated that GWP is no longer used as a performance indicator, having been superseded by insurance revenue. The other two companies made reference to GWP in the front half of the financial statements but its use was limited.

Combined operating ratio (COR)

COR (Combined operating ratio or combined ratio) has historically been a KPI disclosed across the market to illustrate performance. It is generally defined as the level of claims and technical expenses incurred during the period, relative to insurance revenues. It is usually calculated as the sum of the loss ratio and the expense ratio.

YE23 COR (discounted)



Source: PwC analysis and interpretation of YE23 and related external disclosures

[1] Split of loss ratio and expense ratio not disclosed
[2] Assumed to be on a discounted basis

COR is not a required IFRS 17 disclosure **but all GI companies in our sample continue to disclose this ratio**. One company noted that following adoption of IFRS 17 and 9, it no longer uses COR to measure underwriting profitability; instead it has replaced COR with a new KPI called "net insurance margin".

We note that there is no standard method of calculation, which makes comparison across companies more challenging. We observed that companies have used varying definitions to calculate the IFRS 17 COR with the most common differences being in:

- The denominator used (i.e. insurance revenue) – either on a gross or a net of reinsurance basis.
- Any allowance for non-attributable expenses.

All companies disclosed the ratio on a discounted basis. Six (out of 18) also disclosed the undiscounted COR, four of which were based in the UK.

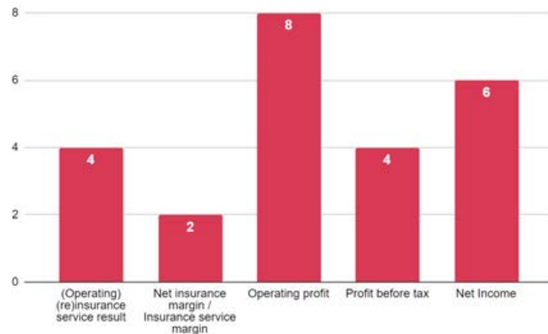
Challenges for direct comparison between GI companies

The COR shown in the chart provides an indication of each companies' standalone profitability, however, it may not be directly comparable across the companies because:

- Four (out of 18) companies (all based in continental Europe) have used insurance revenue (gross of reinsurance) as the denominator, others have deducted reinsurance premiums.
- Two companies have allowed for non-attributable expenses (impacting the numerator).

Income statement line items - Other observations

Income statement line items used as KPIs (number of companies)



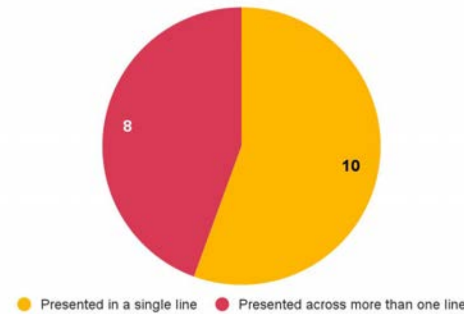
Use of other income statement line items as KPIs

GWP, insurance revenue and COR continue to be the most commonly used KPIs for GI companies. However, other IFRS 17 income statement line items (directly or with certain modifications) are also being used, demonstrating a shift towards using these when reporting profitability.

Over half of the companies discussed insurance service result, although only four use it as a KPI (with one adjusting it to allow for items that prior to IFRS 17, were included in the underwriting result). Two companies use the insurance service result to calculate a net insurance margin/insurance service margin (used as a KPI).

Adjusted operating profit, profit before tax and net income are also used by companies; sometimes as a KPI (with or without adjustment).

Presentation of net expenses from RI contracts held (number of companies)

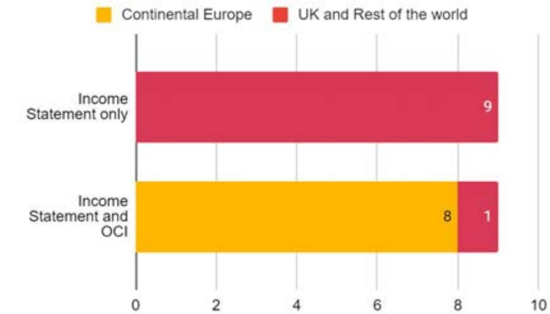


Presentation of net expenses from RI contracts held

IFRS 17 allows companies to present the income or expenses from a group of reinsurance (RI) contracts held as a single amount or separately (as amounts recovered from the reinsurer and an allocation of the premiums paid).

Ten (out of 18) companies presented the income or expenses from a group of reinsurance contracts held as a single line item. There was no clear trend in certain regions preferring to present the results for reinsurance contracts held as either a single amount or across more than one financial statement line item.

OCI option for disaggregating IFIE (number of companies)



OCI option for disaggregating IFIE

IFRS 17 provides companies with a choice to disaggregate insurance finance income or expenses (IFIE) between the income statement and other comprehensive income (OCI) or to recognise the full amount through the income statement.

Using OCI limits the volatility in the income statement due to the effect of and changes in financial risk (such as changes in discount rates).

Half (nine) of the companies in our sample chose to use the OCI option and it was used by all companies in continental Europe. This is because it is more common in continental Europe for companies to measure their financial assets at fair value through OCI under IFRS 9. All except one company in the UK and the rest of the world decided not to use the OCI option.

Source for all charts: PwC analysis and interpretation of YE23 and related external disclosures

Disclosures

Discounting

Discounting approach used

All companies used the ‘bottom up’ approach for deriving the discount rates used for discounting the (re)insurance contract liabilities and assets associated with their GI business. One company noted that the ‘bottom up’ approach is used for ‘most’ groups of contracts.

Risk-free rate and illiquidity premium

Risk-free rates were derived from swap rates, government yields, or rates published by EIOPA/PRA.

The illiquidity premium (ILP) was typically estimated based on adjusting market-observable liquidity premiums in financial assets. Although the ILP is not the same concept as the Solvency II volatility adjustment (VA), one company noted that the ILP is estimated using a similar approach as EIOPA in deriving the VA. Another disclosed that the ILP is in the order of magnitude of the VA. Two companies noted that an ILP was not applied for their GI business.

Three companies specifically disclosed the size of the ILP, which in all cases, was flat by duration. Two of these companies provided the ILP for their major currency only.

Disclosure of yield curves

All except two companies disclosed their yield curves by duration and currency (where relevant). One company provided a range for the yield curve and the associated mean terms of the liabilities by region.

The graphs below (min and max) illustrate the range of GBP/USD/EUR yield curves used by duration across the companies. These show there is variability in the yield curves used by companies, most notably for GBP and USD. Given we would expect the risk-free rates to be fairly consistent across companies, the differences observed will be influenced by the choice of ILP (which will in turn be influenced by the nature of the company’s liabilities).

Four companies disclosed their yield curves by type of liability (for example PPOs and non-PPOs).

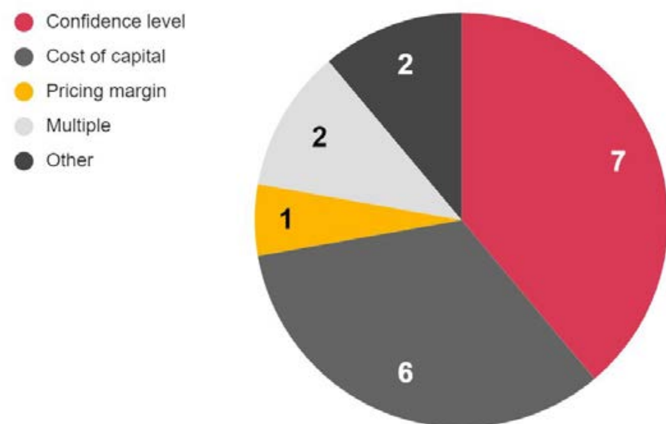
Yield curves range by duration

Source for all charts: PwC analysis and interpretation of YE23 and related external disclosures

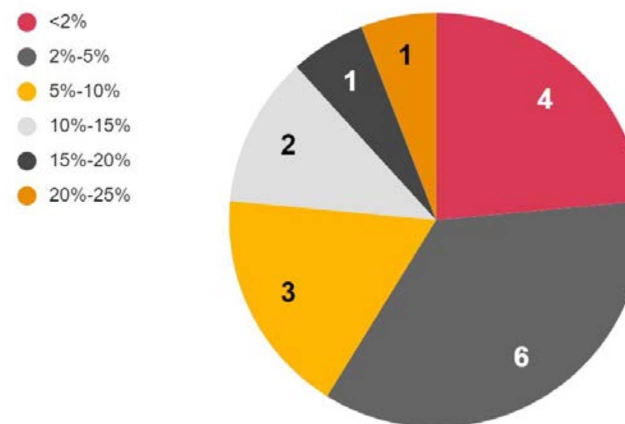
Disclosures

Risk adjustment

Risk adjustment approach (number of companies)



Risk adjustment % uplift (incurred claims cash flows, net of reinsurance)*



Risk adjustment approach

All companies disclosed the methodology used to calculate the risk adjustment. Confidence level was the most commonly used approach, followed by cost of capital.

Within the confidence level approach, value-at-risk (VaR) was the most widely used technique.

Two (out of 18) companies used multiple approaches, with a different approach used for different parts of their business (for example, insurance versus reinsurance business).

Risk adjustment % uplift

The risk adjustment uplift as a percentage of the present value of future cash flows related to incurred claims and on a net of reinsurance basis shows that most companies had an uplift of 2%-5%. Four (out of 17*) companies, all of which are based in continental Europe, had an uplift below 2%. Whilst there was much greater divergence in the risk adjustment uplift for companies in the UK, in continental Europe, all companies recognised an uplift below 4%.

When comparing the risk adjustment percentage uplifts between companies and the associated strength in the liabilities, it is also important to consider the risk adjustment confidence level disclosed (required by IFRS 17), the details of which are on the next page.

*For one company it was not possible to determine the risk adjustment uplift explicitly.

Source for all charts: PwC analysis and interpretation of YE23 and related external disclosures

Disclosures

Risk adjustment confidence level

All companies disclosed the risk adjustment confidence level as required by IFRS 17. Most companies disclosed a confidence level between the 81st and 90th percentile, with the next most used range being the 71st to 80th.

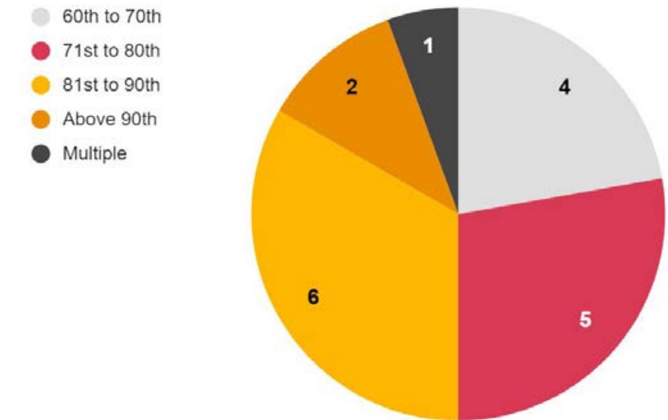
The 'Multiple' risk adjustment confidence level category includes companies that have not disclosed an overall confidence level but have instead disclosed different confidence levels for different parts of their business. For example, separate confidence levels for different business segments or short-term versus long-term contracts.

Challenges when comparing confidence levels

IFRS 17 does not prescribe a standard basis for the risk adjustment confidence level disclosure. Consequently, **there is varied practice and different companies have provided different disclosures which makes it challenging when comparing confidence levels across the market.** In particular:

- Range versus point estimate: Four of the companies (all in continental Europe) disclosed a range instead of a point estimate.
- Ultimate versus one-year horizon: Seven companies explicitly disclosed the confidence level had been estimated on an ultimate view. Two companies disclosed the confidence level on both bases. One company estimated the confidence level using a one-year horizon.
- Gross versus net of reinsurance: Most companies noted that the confidence level disclosed was on a net of reinsurance basis. However, some disclosures were silent on whether it was gross or net of reinsurance.
- Incurred claims versus total claims (incurred and remaining coverage): Four companies disclosed that the confidence level relates to incurred claims only. One company noted that the confidence level relates to incurred claims including reinsurance contracts held that reinsure against adverse development on incurred claims (which form part of the asset for remaining coverage). Another company disclosed the confidence level including and excluding reinsurance contracts held that reinsure against adverse development on incurred claims.

RA confidence level disclosed (number of companies)

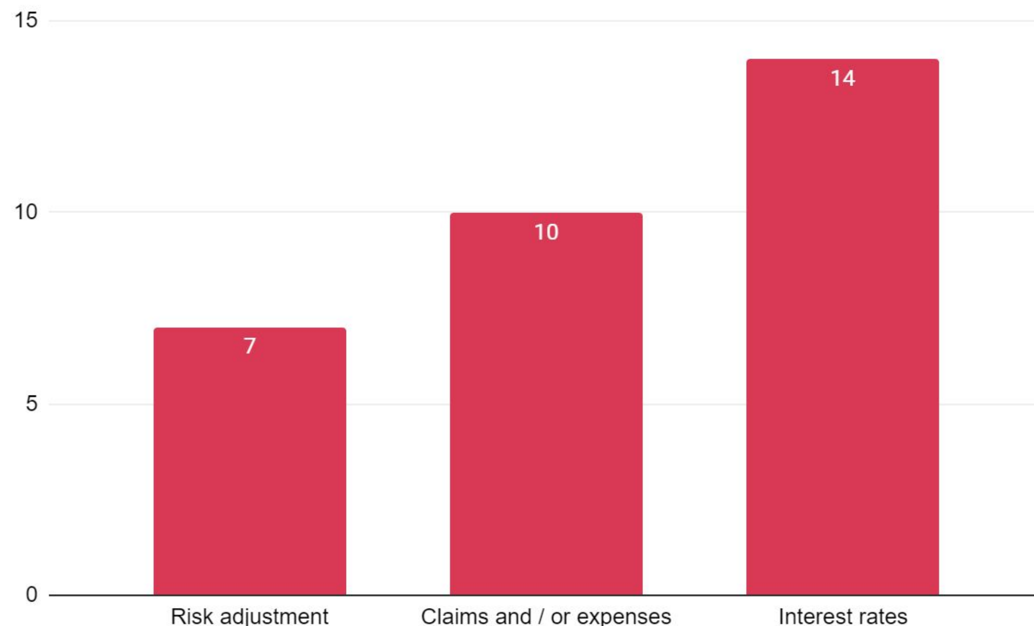


Source: PwC analysis and interpretation of YE23 and related external disclosures

Disclosures

Sensitivity analysis

Key sensitivities disclosed (number of companies)



Source: PwC analysis and interpretation of YE23 and related external disclosures

New sensitivities disclosed following IFRS 17 implementation

Companies are required to disclose a sensitivity analysis to demonstrate the impact of reasonably possible changes in risk variables at the end of the reporting period on profit or loss and equity. Whilst this was also required under IFRS 4, the change in measurement of (re)insurance contracts has resulted in companies considering whether new sensitivities should be disclosed. In particular, **seven (out of 18) companies disclosed a new sensitivity on the risk adjustment** in their 2023 financial statements.

We observed companies disclosing up to six different sensitivities on profit or loss and equity. In most cases, the shocks were applied relatively (for example a 1% increase/decrease in the interest rate).

For GI companies, the most commonly disclosed sensitivity was in respect of interest rates followed by a sensitivity on claims and/or expenses (including sensitivities on the present value of future cash flows (PVFCF) and incurred claims).

However, even where we observed a consistent parameter on which sensitivity analysis was being disclosed, the magnitude of the stress varied across the companies, particularly for parameters specific to a company (such as claims ratios). For external parameters (such as interest rates), the shocks were more consistent between companies (such as a 0.5% or 1% stress).

A sensitivity on the risk adjustment has also been disclosed for the first time this year by almost 40% of the companies in our sample. However, there was no consistent approach between companies on how the stress was performed and the magnitude of the stress applied. Two of the companies disclosed the sensitivity with reference to a percentage increase/decrease to the risk adjustment amount. The other five companies disclosed the impact as a result of an increase/decrease in the risk adjustment confidence level. The actual sensitivity applied varied from 1% to 8% (either as a percentage of the risk adjustment or the risk adjustment confidence level).

5 Closing thoughts

Closing thoughts

Extent of reporting

- Whilst there was additional information disclosed at FY23, through the mandatory IFRS 17 disclosures, there is limited new information on the key judgements at transition to IFRS 17 and the overall impacts are well aligned to what was disclosed at interim 2023.
- Despite certain disclosures being mandatory at FY23, as expected we still observe divergences in approaches, calibrations and in the level of granularity adopted.
- Overall there continues to be a clear indication from most UK insurers that IFRS 17 is not expected to impact strategy, capital generation, solvency or dividend policy.

New measures have emerged but lack of consistency in application

- New IFRS 17 measures have emerged and are being reported across most insurers, but there continues to be a lack of consistent definitions, so stakeholders still need to do further work to understand the reasons for the differences and their impact.
- Consistent with HY23, AOP and adjusted equity continue to be key metrics for life insurers. The CSM maturity profiles were disclosed across all insurers for the first time at FY23 and we expect these to gain attention from analysts and investors as they will form a large part of future IFRS 17 profits.
- COR continues to be one of the main metrics used by GI companies albeit on a discounted basis and with varying definitions.
- We don't expect insurers to make wholesale changes over the short term, though we may see some convergence in approaches or calibrations over time.

Maturity of the IFRS 17 reporting process

- Although all insurers produced IFRS 17 results, from a process perspective, many continued to struggle with:
  - Producing results within the year-end working day timetable,
  - Utilising IFRS 17 strategic systems throughout the entire process, and
  - Transitioning the process entirely away from project to reporting teams, particularly with the understanding of the results.
- Whilst IFRS 17 teams may be taking a well deserved break post the completion of FY23, they will also be considering and prioritising the key activities they will need to complete over 2024 and beyond in order to move to their desired end state position.

Next steps

- It is likely that some insurers may seek to align IFRS 17 improvement activity with any wider finance transformation projects to unlock the long term benefits of the significant investments made.
- The FRC is expected to review the first annual IFRS 17 reporting following their initial assessment late last year. Insurers should pay close attention to any thematic findings the FRC outlines and reflect them in future reporting.
- Insurers should continue to analyse the disclosures made by their peers to see where leading practices can be adopted and listen to what the investor / analyst community are most interested to see under IFRS 17.
- We are supporting Life, GI and reinsurance firms with IFRS 17 remediation and finance transformation, so reach out to your local PwC contact to hear more.

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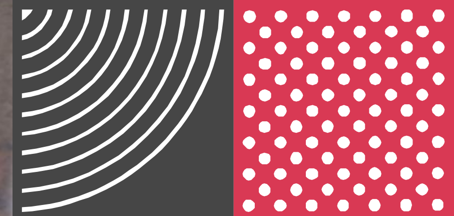

7 Appendices

Appendix: List of insurance companies considered

Company	Business included in sample
Admiral	Non-life
Allianz	Non-life
Aviva	Life and non-life
Axa	Non-life
Beazley	Non-life
Brit	Non-life
DLG	Non-life
Ecclesiastical	Non-life
Generali	Non-life
Hannover Re	Non-life
HSBC	Life
Hiscox	Non-life
Just Group	Life

Company	Business included in sample
Lancashire	Non-life
Legal and General	Life
LBG	Life and non-life
M&G	Life
Munich Re	Non-life
PIC	Life
Phoenix	Life
Prudential	Life
Rothesay	Life
QBE	Non-life
SCOR	Non-life
Talanx	Non-life
Zurich	Non-life

Thank you

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