DAV/DGVFM
Herbsttagung
2023

IFRS 17 – erste Erfahrungen

DAV/DGVFM Herbsttagung

20. November 2023

EY
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Heute bei Ihnen

Vorstellung

Dr. Markus Horstkötter
Partner

- Wirtschaftsprüfer
- bei EY seit 2001
- Standorte Köln und Hannover
- Prüfungsmandate u.a.
  - ERGO Group (seit 2020)
  - Generali (bis 2018)
  - Continentale
  - DR/VöV
  - Delvag
  - VW Versicherung
- IFRS 17
  - Mitglied der Arbeitsgruppen des IDW und DRSC

Dr. Peter Ott
Partner

- Aktuar(DAV), Wirtschaftsprüfer, Steuerberater, Certified FRM
- bei EY seit 2018
- Standorte München
- Mandate aktuarielle Prüfungsuntersützung
  - MR/ERGO Group (seit 2020)
  - Zurich (seit 2020)
  - Athora (seit 2020)
  - Baloise (seit 2019)
  - Allianz (1997 bis 2016)
  - und einige mehr…

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EY Global

London
Globaler Hauptsitz

150+
Länder

365.000
Mitarbeiter weltweit

45,4 Mrd. USD
Handelsrechtlicher Umsatz FY 2022

EY Deutschland

Stuttgart
Hauptsitz

20
Niederlassungen

12.500
Mitarbeiter in Deutschland

2,28 Mrd. EUR
Handelsrechtlicher Umsatz FY 2022

EY FSO Global

Global integriert
Financial Services

122
Länder

41.000
Mitarbeiter FSO weltweit (16.400 FSO EMEIA)

13,8 Mrd. USD
Handelsrechtlicher Umsatz FY 2022

EY FSO Deutschland

Integriert
in das EY EMEIA Financial Services Netzwerk

10
Standorte

2.000+
Mitarbeiter in Financial Services Deutschland FY 2021

264 Mio. EUR
Handelsrechtlicher Umsatz FY 2022

Unsere Sektoren innerhalb der FSO

- Banking and Capital Markets
- Insurance
- Wealth & Asset Management

AGENDA

IFRS 17 – erste Erfahrungen

1. **Benchmarking**
2. **Bilanzierungsthemen**
3. **Prüfungsthemen**
4. **Fragen und Diskussion**

Inhalt

Benchmarking

01

Key highlights

Net profit margin

8% → 15%

14

The net profit margin (defined as net profit over insurance revenue) ranged from **8% to 15%** for **14** insurers.

Ratio of CSM to ICL (GM and VFA)

5% → 10%

8

Eight insurers reported a **ratio of CSM** to total insurance contract liabilities (ICL) between **5% and 10%**.

Ratio of RA to ICL

1% → 5%

14

The **risk adjustment** ranged between **1% and 5%** of total insurance contract liabilities for **14** insurers.

CSM release weight

<5%

11

The proportion of the **CSM released** during the first six months ending on 30 June 2023 **was lower than 5%** for **11** insurers.

CSM growth

70% → 100%

9

The ratio of **new business CSM** vs. **CSM released** during the first six months, ending on 30 June 2023, ranged from **70% to 100%** for **nine** insurers.

Loss component weight

<0.3%

11

The **loss component** represented **less than 0.3%** of total insurance contracts liabilities for **11** insurers.

Reinsurance CSM weight

1% → 5%

11

The ratio of **reinsurance CSM** to the CSM of insurance contracts issued **was between 1% and 5%** for **11** insurers.

Expected credit loss (ECL) allowance

0.1% → 0.4%

6

The ratio of **lifetime ECL allowance** to total debt instruments at FVOCI and amortized cost **ranged from 0.1% to 0.4%** for **six** insurers.

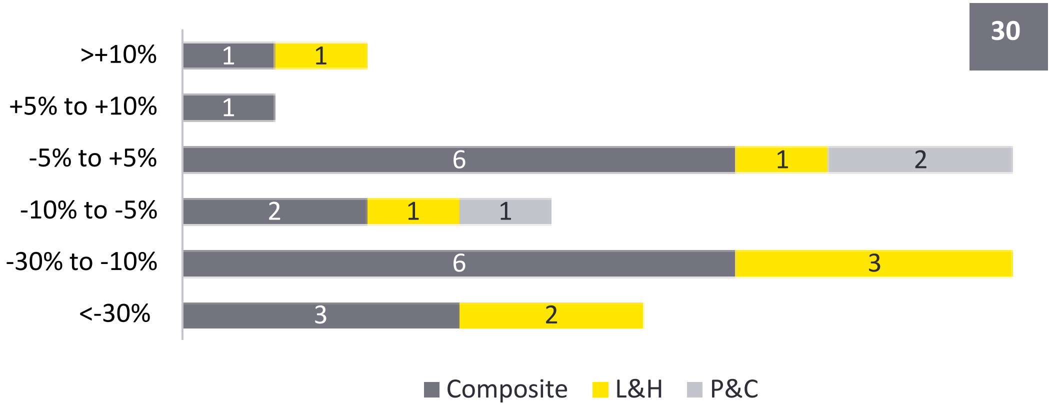
Note: a glossary of terms is available at page 30

No. of Insurers

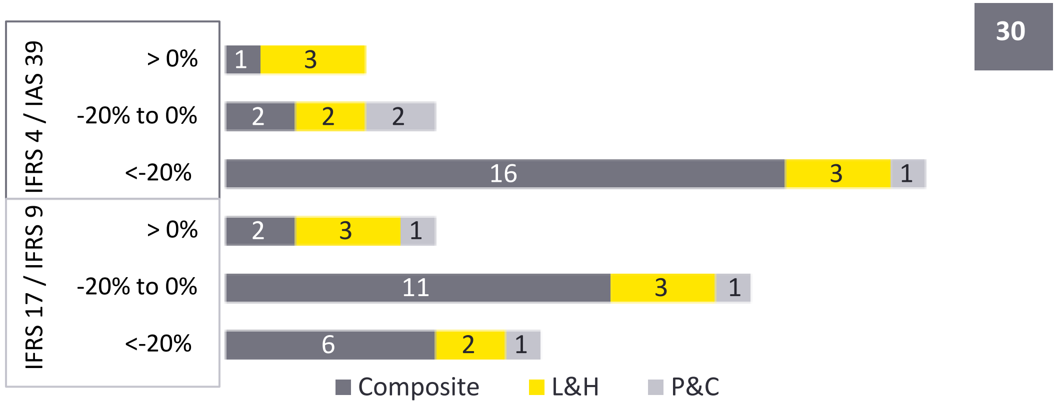
Shareholder's equity change

No. of insurers presented

IFRS 17 and IFRS 9 vs. IFRS 4 and IAS 39: 1 January 2022



IFRS 17 and IFRS 9 vs. IFRS 4 and IAS 39: 1 January 2023 vs. 1 January 2022 (annual movement)



On transition: negative impact for long-duration business due to CSM, RA and use of current assumptions in measurement

- **A large majority** of **composite** and **L&H insurers** reported **decreased equity** due to the **recognition of a risk adjustment and CSM** and the **application of current assumptions in the IFRS 17 measurement.**
- The percentage impact varied across insurers, mainly in the **range between —30%** and **+10%.**
- For **P&C insurers**, the impact **was less pronounced,** given the shorter duration of their business with the majority of the contracts measured under the PAA.

After transition: better alignment between the measurement of investments and liabilities

- **The majority** of the insurers showed a **decrease in equity** under **both sets of standards** during the full year 2022, but the **decrease was larger under IFRS 4 and IAS 39**.
- A **key reason** is **better alignment between the measurement models** of the investments and the insurance contract liabilities, as **now, values of both are impacted by changes in current market interest rates**.

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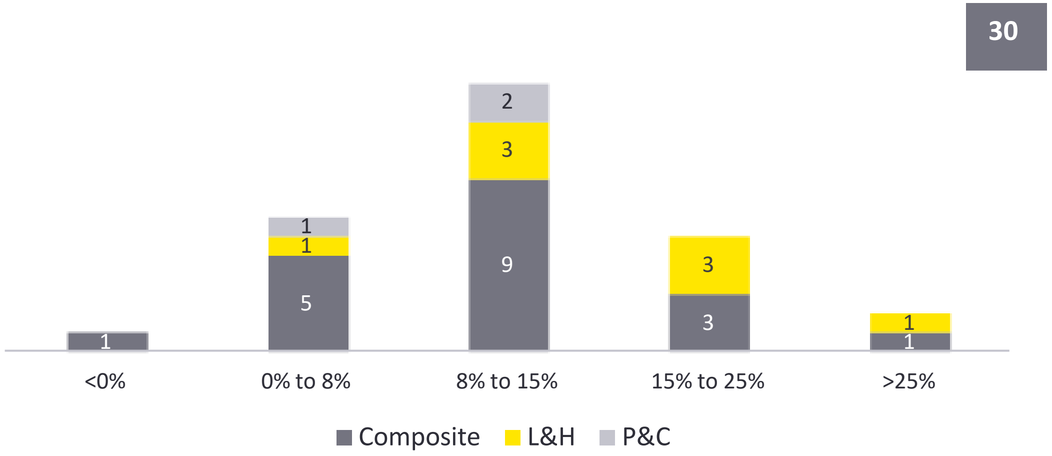
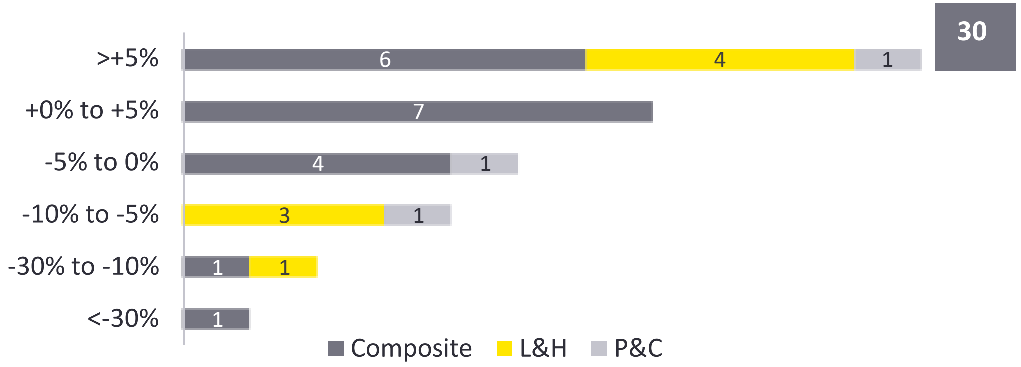
Net profit margin: ratio of net profit to insurance revenue

No. of insurers presented

Net profit margin on 30 June 2023



Net profit margin: 30 June 2023 vs. 30 June 2022 (HY 2022 comparison, percentage point (pp) change)



What the metric is about

It represents the amount of **net profit** the entity obtains from its **total insurance revenue**. The **higher the percentage**, the **higher the amount of net profit** that the entity generates **in proportion to insurance revenue**.

Key takeaways as on 30 June 2023

- **Large majority** of **composite insurers** disclosed a **net profit margin between 8% and 15%**; **most L&H insurers** are showing a margin **between 8% and 25**%, while **P&C insurers** are presenting a **range** of 5% to 13%.
- **Two insurers** disclosed a margin **above 25%,** while **one composite** insurer disclosed a **negative net profit margin, driven by a negative net profit as on 30 June 2023**.

Insights from comparatives on 30 June 2022

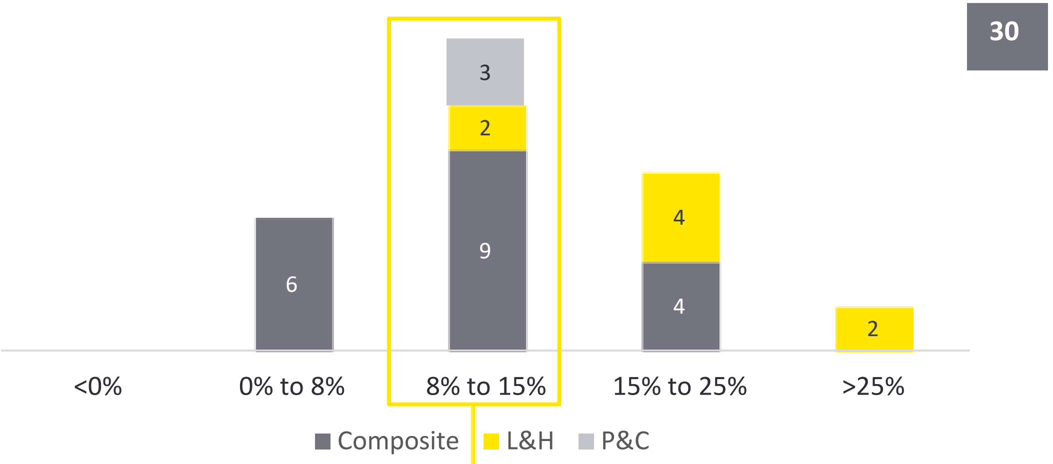
- Generally, **composites** reported an increase in the **HY 2023 net profit margin** compared with **HY 2022, mainly due to less unfavourable impacts** from **market volatility** for HY 2023, particularly for insurers that recognize the change of financial variables in profit or loss.
- **L&H insurers** showed a **more balanced change** during the year, with half of them disclosing a higher margin, while the other half showed a lower one.
- **Two P&C insurers** showed a **decrease in the HY 2023** margin compared with the **HY 2022** ratio, with one commenting that this was being driven by a decrease in the net profit observed in the year. The decrease was **mainly due to the strong favourable effect of changes in discount rates recognized in profit or loss during HY 2022.**

EY

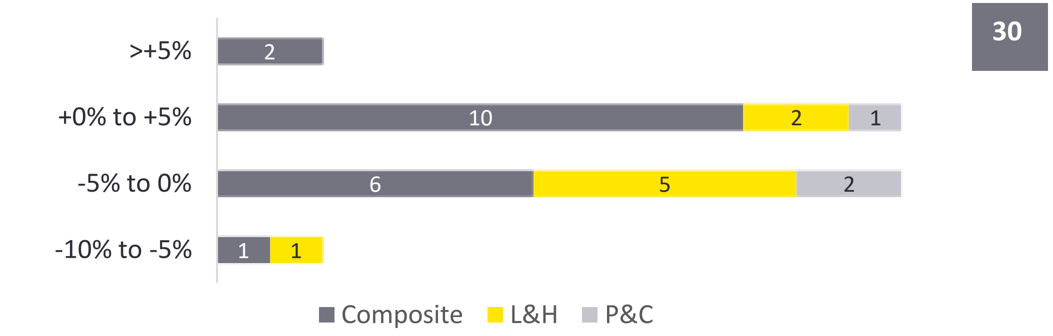
Insurance service margin: ratio of insurance service result to insurance revenue

No. of insurers presented

Insurance service margin on 30 June 2023



Insurance service margin: 30 June 2023 vs. 30 June 2022 (HY 2022 comparison, pp change)



What the metric is about

It represents the amount of **profit from insurance service** the entity obtains from its **total insurance revenue**. The **higher the percentage**, the **higher the amount of profit** from insurance service that the entity generates **in proportion to insurance revenue**.

Key takeaways as on 30 June 2023

- **The majority of insurers** disclosed an insurance service margin **between 8% and 15%.**
- **L&H insurers** generally presented a **higher insurance service margin** as compared with composite and P&C insurers.
- Overall, the **insurance service margin** was **higher than the net profit ratio** for **two-third of the insurers**, driven by a **stronger insurance service result** compared with the total net profit as on 30 June 2023.

Insights from comparatives on 30 June 2022

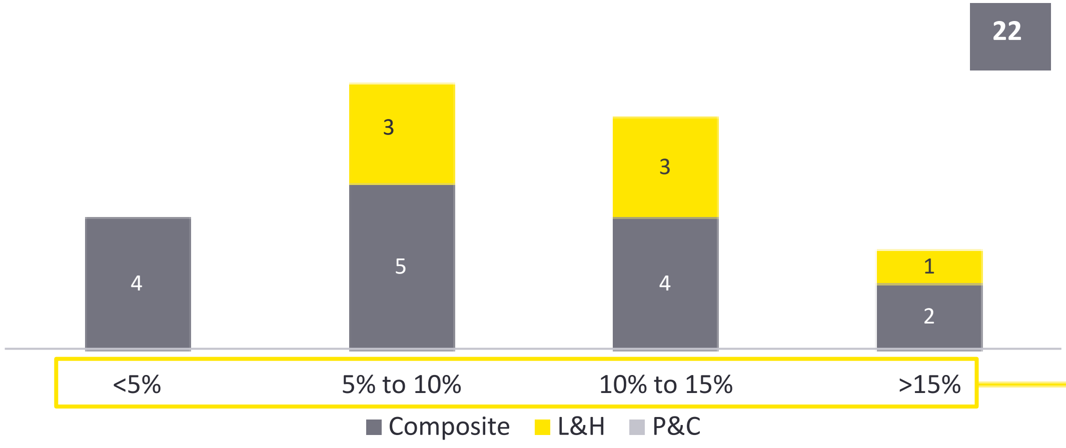
▲ Generally**, the majority of composite insurers** observed an **increase in the margin compared with HY 2022** due to an **increase in the insurance service result** in proportion to total insurance revenue in the year.

▼ The majority of **L&H and P&C insurers** observed a **decrease** in the margin, partially driven by an **increase in the total insurance revenue observed in the year** without a corresponding change in insurance service result**.**

Ratio of CSM to insurance contract liabilities (business under the GM and VFA models)

No. of insurers presented

Ratio of CSM to ICL (GM and VFA) on 30 June 2023



What the metric is about

It represents the **weight of the CSM** on the **total insurance contract liabilities,** covering the GM and VFA business. The **higher the percentage**, the higher is the relative value of the CSM, which means there is **more remaining future profitability** from insurance contracts.

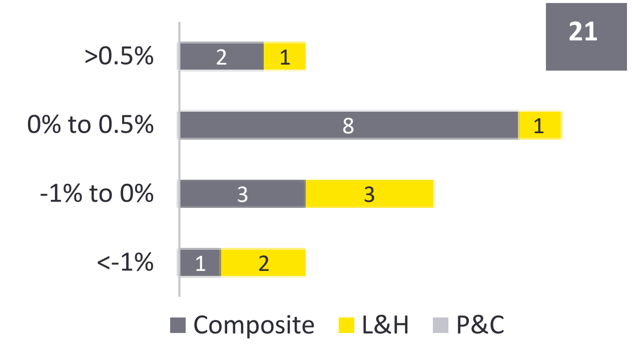
Key takeaways as on 30 June 2023

- One of the drivers of **higher CSM** for profitable insurance contracts is the use of the **fully retrospective and modified retrospective approaches** to quantify the CSM at transition for certain types of business, as **opposed to the use of the fair value approach, which generally results in a lower CSM.**
- The total range observed is **between 3% and 30%.** Most **composite and L&H insurers** disclosed a ratio **above 5%** for their GM and VFA insurance business.

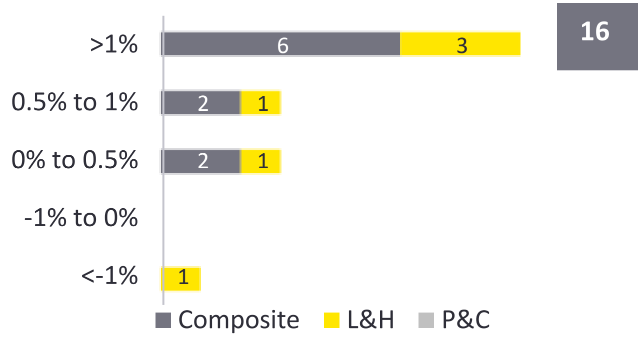
Insights from comparatives

- **The large majority** of insurers showed a slight increase in the **HY 2023** ratio compared with the **FY 2022** mainly concentrated **between 0% and 0.5%.** One factor contributing to this is the addition of future profits from new business exceeding the run-off of profit from existing business.
- **The large majority** of insurers presented an **increase of more than 1%** in the ratio since the transition date**,** with **one composite insurer** in particular that presented an **increase of 6%.**

Ratio of CSM to ICL (GM and VFA): 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)



Ratio of CSM to ICL (GM and VFA): 30 June 2023 vs. 1 January 2022 (transition date comparison, pp change)

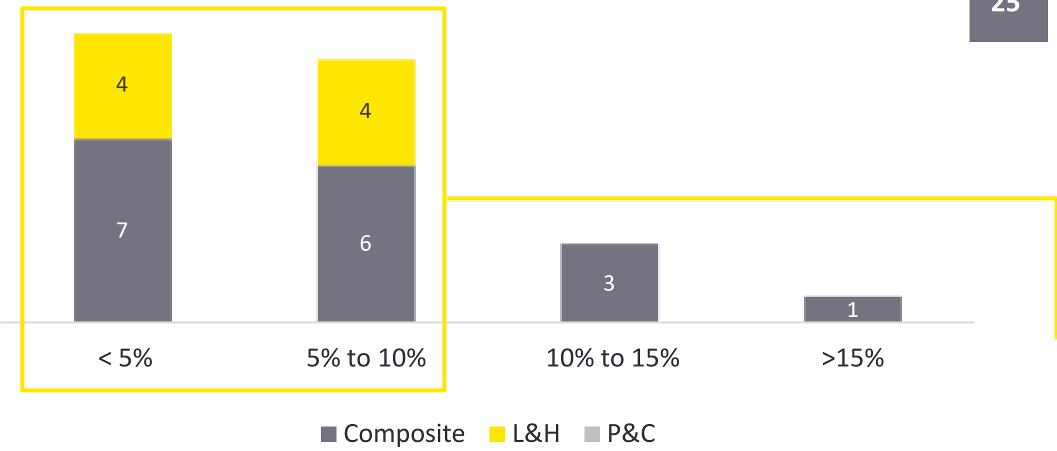


CSM release ratio: ratio of CSM release in the period to total CSM

No. of insurers presented

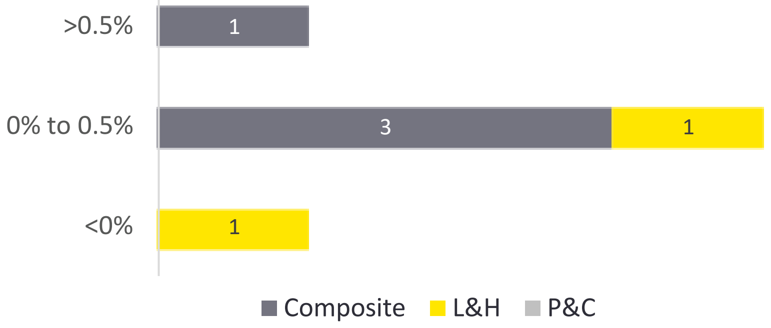
CSM release on 30 June 2023

25



CSM release: 30 June 2023 vs. 30 June 2022 (HY 2022 comparison, pp change)

6



What the metric is about

It represents the **amount of CSM released** to profit and loss as a percentage of the **total CSM balance** at the end of the period. This ratio provides some insight **into the runoff period** of the CSM, which can be analyzed further **when the CSM runoff period is disclosed in the** annual financial statements presented at the year-end in accordance with IFRS 17.

Key takeaways as on 30 June 2023

- **Around half** of insurers released up to 5% of their total CSM during the first six months of 2023. Another group of insurers released **between 5% to 10% of the CSM,** representing **21** insurers in total**. This points to, when translated to an annual basis, a run off period range of 5–10 years for the existing CSM.**
- The CSM release ratio for the first six months provides an **indication of the annual CSM release**. The **higher the ratio, the shorter the expected CSM release** period.

Insights from comparatives on 30 June 2022

- The **HY 2022** CSM release ratio was **available** for **few insurers only,** given that the **large majority** of insurers **disclosed FY 2022 IFRS 17 roll-forward tables** for their comparatives.
- For the insurers that provided this information, the **HY 2023 CSM release ratio was generally in line** with the **HY 2022 CSM release percentage**. For **one composite insurer,** we observed an **increase of 3%** in the CSM release ratio.

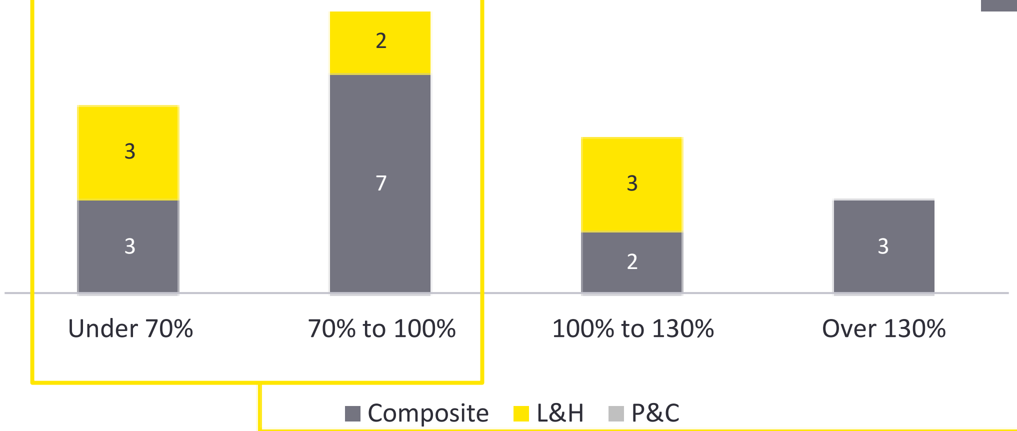
EY

CSM growth ratio: ratio of new business CSM to CSM release

No. of insurers presented

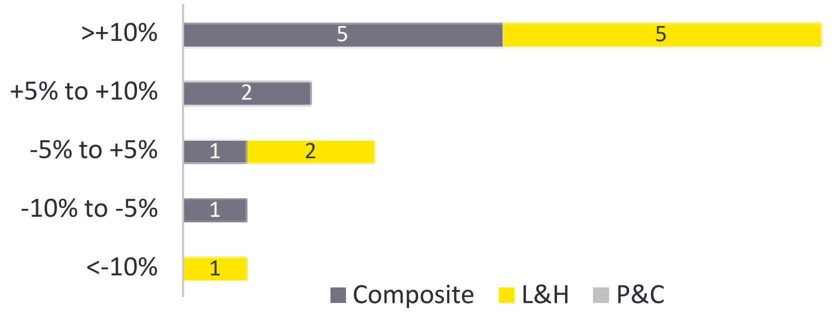
CSM growth on 30 June 2023

23



CSM growth: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)

17



What the metric is about

It provides insights on the **growth direction of the unearned CSM** of insurers. A ratio **above 100%** means that, absent other measurement effects, the **CSM is growing** (i.e., the amount of CSM recognized for new business **is higher** than the amount of CSM released in the period). A ratio **below 100%** means that the **CSM is declining**.

Key takeaways as on 30 June 2023

- **The majority** of insurers presented an **amount of CSM released** that is **higher** than the amount of **CSM added for new business** during the **six months, ending on 30 June 2023,** resulting in a **HY 2023 CSM growth ratio below 100%.**
- **One composite** and **one L&H** insurer reported **the lowest** ratio of **50%.**
- Only **three insurers** disclosed a **ratio above 130%.** In particular, **one composite insurer** showed a ratio of **150%.**

Insights from comparatives on 31 December 2022

The **large majori**ty of **composite** and **L&H** insurers observed an improvement **above 10**% in the **HY 2023 CSM growth ratio** as compared with the **FY 2022** one. In particular, **one composite** insurer showed an **increase of 82%** in the CSM growth ratio. It was **driven by a significant increase in the CSM from the new business recognized in the first six months of 2023.**

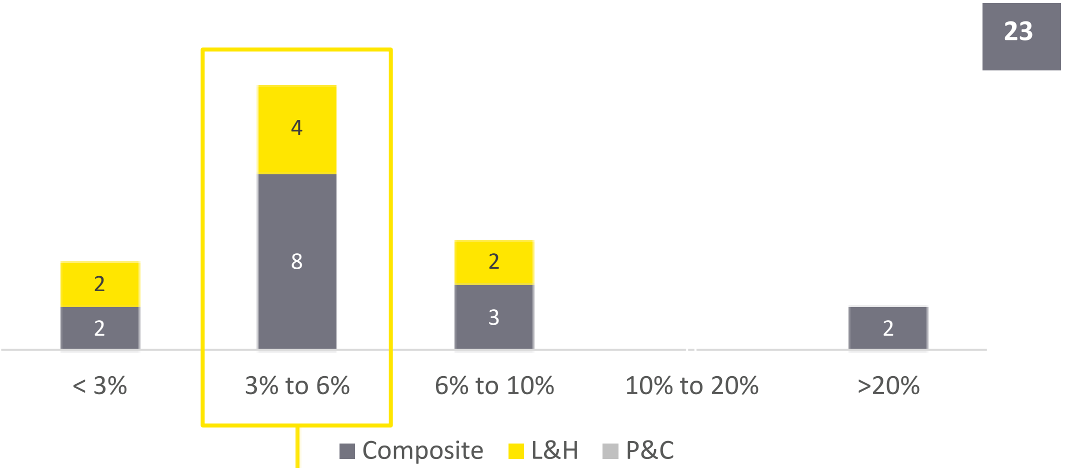
For the insurers who disclosed the **HY 2022 movement** (not shown in the diagrams as majority of the insurers disclosed **FY 2022** roll-forward tables), we observed the **majority** to show a **slight improvement** in the **growth ratio up to 2%,** while only **one insurer** presented **a decrease in the growth ratio of -3%**.

EY

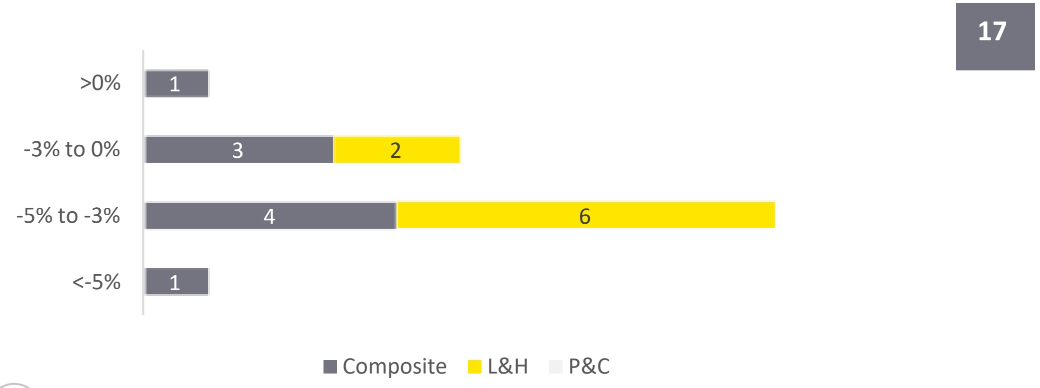
New business (NB) CSM weight: ratio of new business CSM to total CSM

No. of insurers presented

NB CSM weight on 30 June 2023



NB CSM weight: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)



What the metric is about

It represents the **weight of the CSM from new business** written in the period and provides insight regarding **profitable new business**. The **higher the ratio**, the higher is the amount of **new unearned future profit** recognized by the insurer during the period relative to the total remaining CSM at the end of the period.

Key takeaways as on 30 June 2023

- The **majority** of insurers presented an amount of **new business CSM** from **new insurance contracts** recognized during the **first six months of 2023** over the **total amount of CSM,** which is in the range **between 3% and 6%.**
- The **lowest percentage** has been observed for **one composite insurer** and **one L&H insurer,** which presented a weight percentage **of 2%.**
- **Two composite insurers** presented a weight percentage **above 20%,** in particular one disclosed a percentage of **22%.**

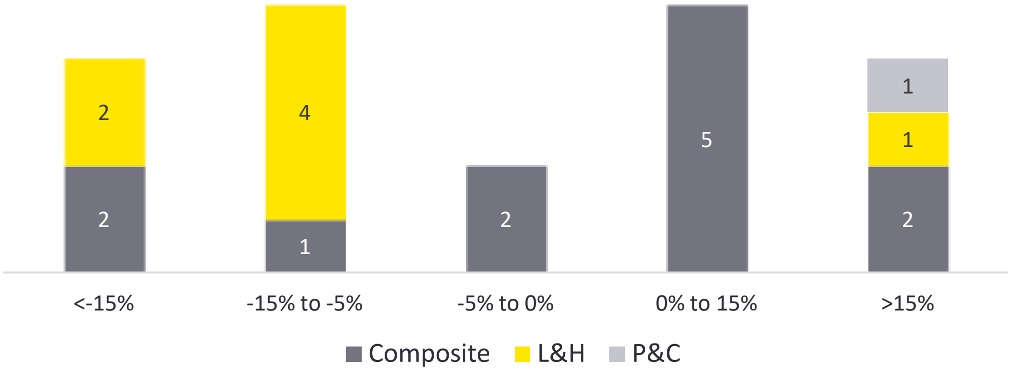
Insights from comparatives on 31 December 2022

- The **large majority** of **composite** and **L&H insurers** observed a **decrease** in the range **between -3% and -5% in** the **HY 2023** new business CSM weight ratio as compared with the **FY 2022** weight ratio
- For the insurers who disclosed the **HY 2022 movement** (not shown in the diagrams as majority of the insurers disclosed **FY 2022** roll-forward tables), **the large majority** showed an **improvement** in the weight ratio in the year **between 0%** and **3%,** while only **one insurer** presented a **decrease in the weight ratio of -3%**

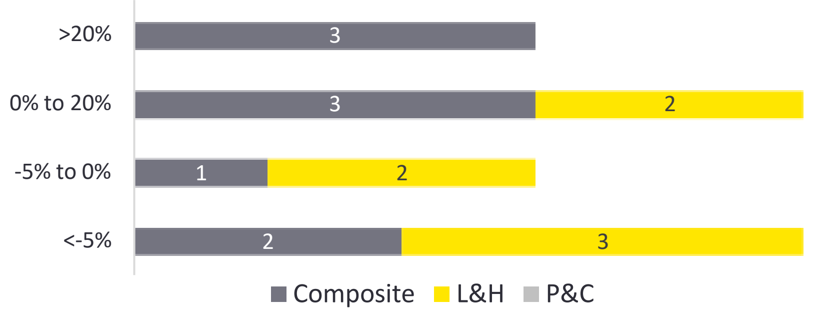
Experience variance weight (GM and VFA): experience variance as a proportion of insurance service result

No. of insurers presented

Experience variance weight (GM and VFA) on 30 June 2023



Experience variance weight: 30 June 2023 vs. 31 December 2022 (FY 2022 comparison, pp change)



What the metric is about

It represents the weight that the **experience adjustments related to current services** for GM and VFA has on the **insurance service result** generated during the period. A ratio **above 0%** means the insurer presented a **favourable effect from** its experience variance, while a ratio **below 0%** means the insurer presented an **unfavourable effect** from its experience variance.

Key takeaways as on 30 June 2023

- The **large majority** of **L&H insurers** presented **a negative experience variance** of **above -5%** of their insurance service results. In particular, one insurer disclosed a weight of -47%.
- The **majority of composite insurers** presented a **positive experience** variance **within 15%** of their insurance service results. Two c**omposite insurers** disclosed a weight **above 15%.**
- This metric appears to be **less relevant for P&C insurers,** given that all or the large majority of their business is generally measured under the PAA.

Insights from comparatives on 31 December 2022

- The **large majority** of **composite** insurers reported an **improvement** in their **HY 2023** experience variance weight, which positively contributed to the insurance service result.
- On the other hand, **the majority of L&H Insurers** reported **a deterioration** in their **HY 2023** experience variance weight, which negatively contributed to their insurance service results.

Bilanzierungsthemen

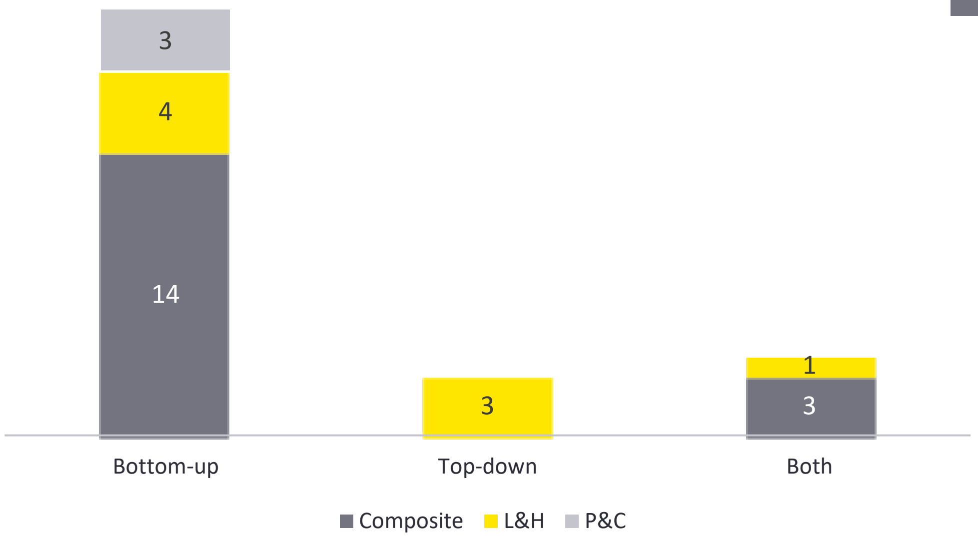
02

Discount rate approach and curve

No. of insurers presented

Discount rate approach

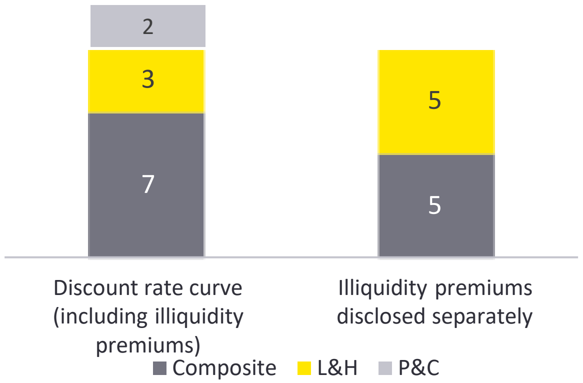
28



- A **large majority** of insurers disclosed the use of the **bottom-up approach**, with some of them providing further information on the determination of the illiquidity premium (e.g., derived from own assets).
- Three composite and one L&H insurer disclosed the use of both methods, depending on the type of business. In particular, one insurer mentioned to use the **bottom-up approach** apart from the **annuity business**, where they use the **top-down approach**. Another one mentioned to use **bottom-up approach** for **P&C business,** while **top-down approach** for **L&H business.**

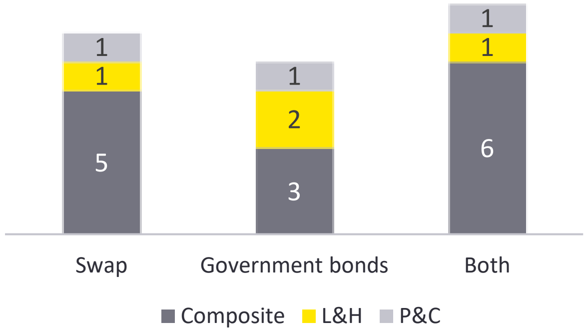
Discount rate curve

22



- **The majority** of the insurers **disclosed the yield curve** used to discount the cash flows. **Ten insurers** disclosed **separately the illiquidity premium** applied to the risk-free rates.

21



- The majority of the insurers disclosed the use of **both swap rates and government bonds** in the definition of the risk-free rates used to derive the discount rate under the bottom-up approach.
- The choice of using swap rates rather than government bonds is **mainly driven by the currency** of the cash flows.

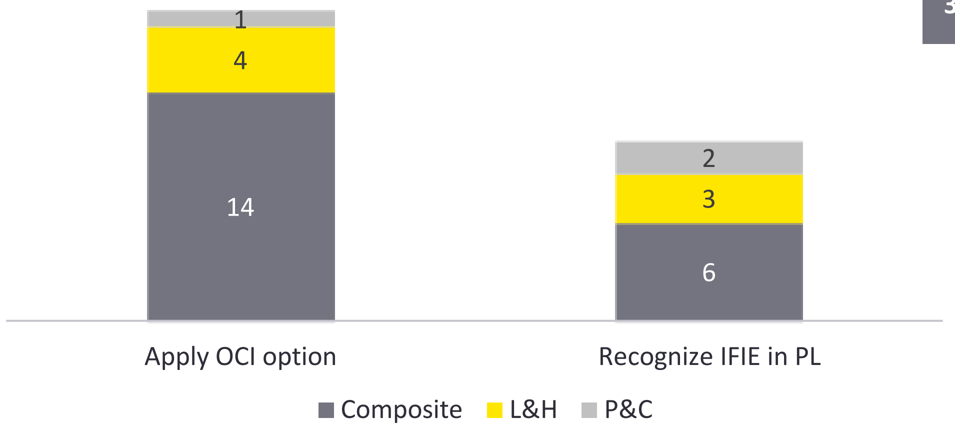
- Some insurers reported information on the **last liquid point** (LLP) and **ultimate forward rate** (UFR) to derive the risk-free rate curve. For EUR, the disclosed UFR ranges from **2.4% to 3.45%** and the disclosed LLP varies from **20 years to 30 years**.

Insurance finance income and expense (IFIE) policy election, coverage units and cohorts approach

No. of insurers presented

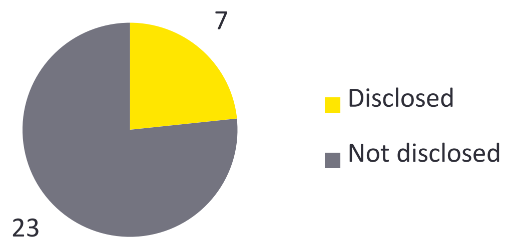
IFIE accounting policy election

30



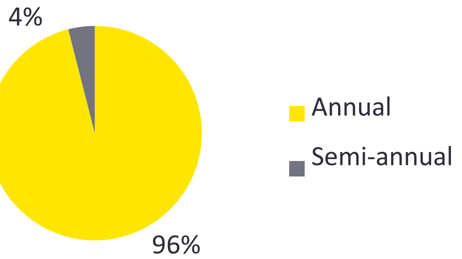
- A **large majority** of **composite** and **the majority** of **L&H insurers** elected to apply the **other comprehensive income (**OCI) option for the presentation of **insurance finance income and expense**. Some of these insurers mentioned that the OCI option will be applied only to certain portfolios (e.g., non-VFA contracts).
- **The majority of P&C insurers** elected to recognize insurance finance income and expenses fully in profit and loss, **not applying the OCI option.**
- The accounting policy applied on the **liability side** reflects the classification reported on the **asset side,** where the majority of insurers used **a FVOCI measurement for their debt instruments** (refer to slide 19).

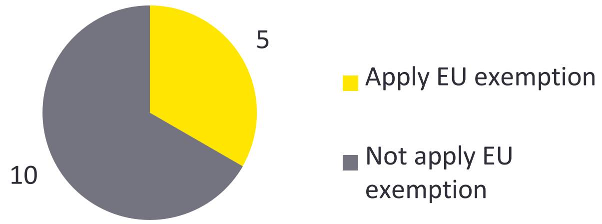
CSM coverage unit



- The **large majority** of insurers **did not provide a** detailed disclosure on the **coverage units** for the release of the CSM in their interim report.

Cohort period





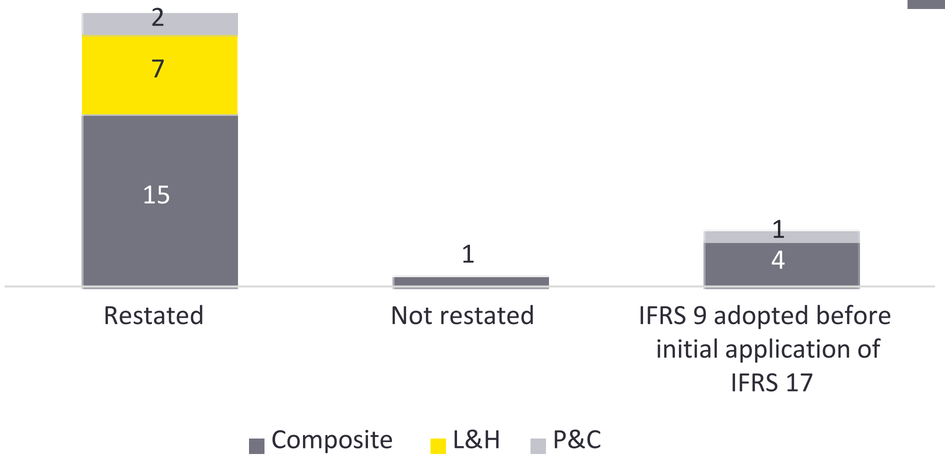
- **Fifteen insurers** disclosed information on cohorts, with all of them **using annual cohorts** to group their insurance contracts, apart from one L&H insurer that is using semi-annual cohorts.
- **Five** of the 15 insurers in our panel that are domiciled in EU reported they applied the **EU exemption** from the annual cohorts requirements.

IFRS 9 methodology decisions

No. of insurers presented

Restatement of comparatives

30



- The large majority of insurers restated IFRS 9 comparatives for 2022 on the basis of full IFRS 9 requirements or the "classification overlay" approach, which has been applied to specific financial assets.
- One composite insurer did not restate IFRS 9 comparatives, which have been presented in accordance with IAS 39 instead.
- Four composite and one P&C insurers already applied IFRS 9 requirements before the initial application of IFRS 9 on 1 January 2023.

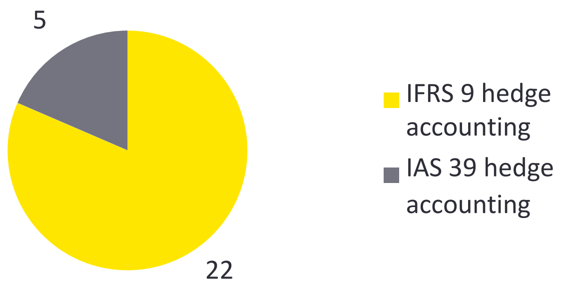
IFRS 9 designations

4 insurers disclosed applying a FVTPL measurement for their debt instruments of the insurance business, using the fair value option when necessary.

13 insurers used the fair value option to designate equity instruments at FVOCI (non-recyclable) that would otherwise been classified at FVTPL.

Hedge accounting

27



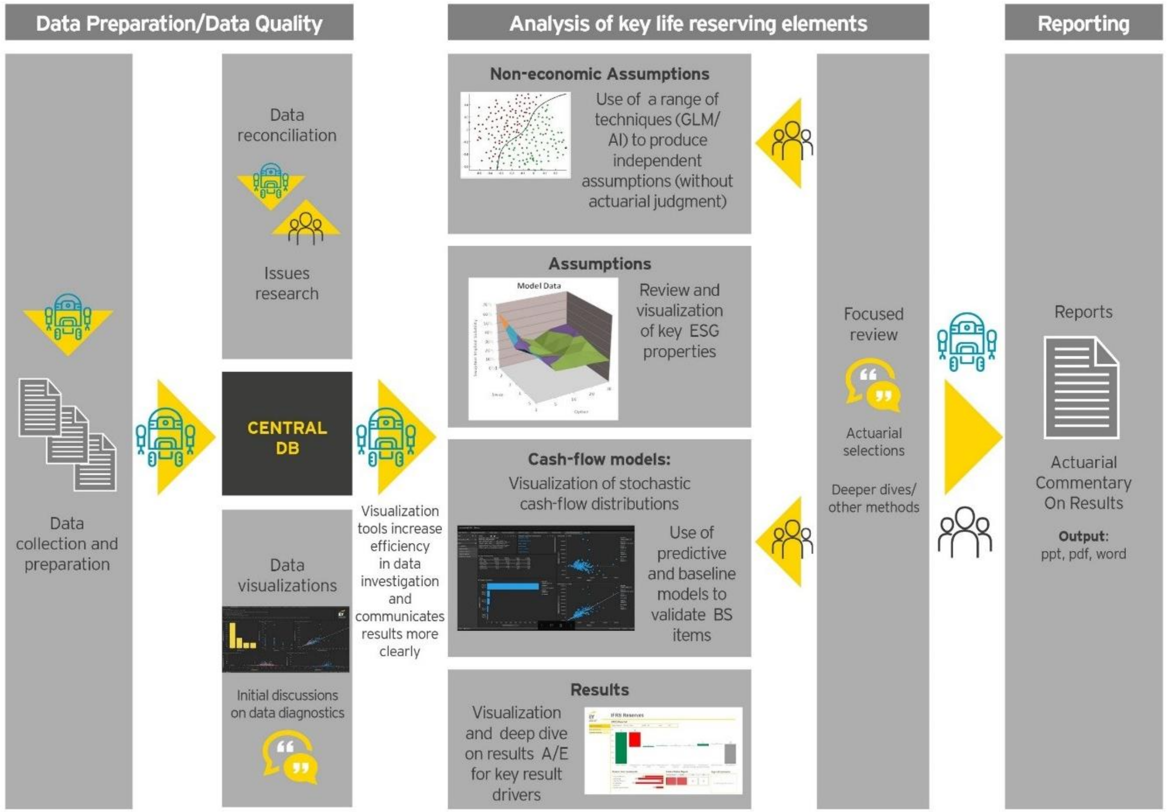
- The large majority of insurers that disclosed this information decided to apply the IFRS 9 requirements to hedge accounting (some of them mentioned to continue to apply the IAS 39 principles for macro hedging).

Prüfungsthemen

03

Prüfungsthemen

- **Zunehmende Automatisierung der aktuariellen Prüfungsschritte bei IFRS 17**



- **Prüfungsthemen des aktuariellen Audits**
  - Datenqualität
  - Interne Kontrollen im Modellierungsbereich
  - verstärkter Fokus auf Annahmen im Vergleich zu IFRS 4
  - Weiterentwicklung von Prüfungshandlungen zur Prüfung von stochastischen Szenarien
  - Neue Tools zur Prüfung bspw. der CSM
  - Neue KPIs und neue Analysetechniken

Prüfungsthemen

- **Wesentlichkeit**
  - Bestimmung nach berufsständischen Vorgaben (ISA (DE) 320)
    - Bemessungsgrundlage: wesentliche Steuerungsgröße des Unternehmens
      - Ergebnis (vor oder nach Steuern)

  - Erfahrungen aus der Erstanwendung
    - niedrigere Wesentlichkeit gegenüber 2022 (IAS 39 und IFRS 4) aufgrund der erstmaligen Anwendung von IFRS 9 und IFRS 17 in 2023 (berufsrechtlich gebotene Vorsicht)
    - keine langjährigen Vergleichszahlen verfügbar – keine Durchschnittsbildung möglich
    - höhere Schwankungen bei Schätzanpassungen als unter IFRS 4

03

Prüfungsthemen

- **IAS 8**
  - Anwendungsfälle
    - Error
    - Change in Accounting Estimates
    - Change in Accounting Policies
  - Erfahrungen aus der Erstanwendung
    - relativ mehr Anwendungsfälle als unter Solvency II und IFRS 4
      - höhere Schwankungen bei Schätzanpassungen als unter IFRS 4
      - geringere Wesentlichkeitsgrenzen als unter Solvency II
      - keine „Erleichterungsregelung“ analog Artikel 9 Abs. 4 DVO (2015/35)
      - höhe Komplexität der Schätzungen
      - Konsequenz: tendentiell höhere Anzahl und Volumina der IAS 8-Fälle

03

Inhalt

Fragen und Diskussion

04

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Ob Assurance, Tax & Law, Strategy and Transactions oder Consulting: Unsere Teams stellen bessere Fragen, um neue und bessere Antworten auf die komplexen Herausforderungen unserer Zeit geben zu können.

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