# IFRS 17 FY23 Australian reporting analysis

June 2024

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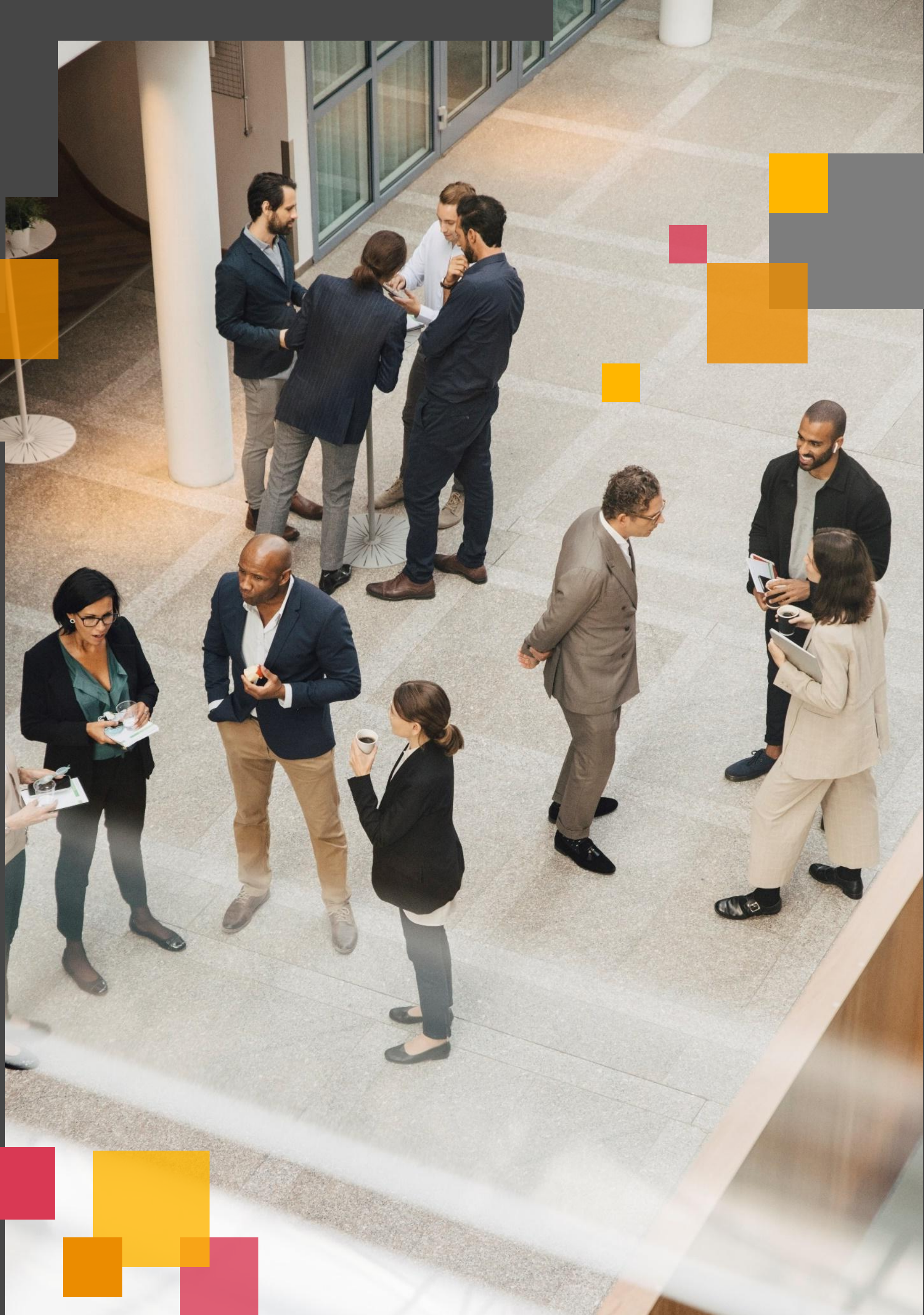
# Executive summary



# Executive summary

## IFRS 17 is finally live

Following many years of significant investment by insurance companies, IFRS 17 *Insurance Contracts* (IFRS 17) is now live. This publication compares the disclosures made by a selection of Australian life (8) and general (4) insurers, including both direct writers and reinsurance companies, in their annual financial statements for the year ending December 2023. These statements, published in the first quarter of 2024, are the first to be prepared under IFRS 17.

This publication has been prepared exclusively using publicly available financial information. Its primary objective is to present the range of approaches adopted across the industry through a comparison of a selection of companies. This publication is purely informational and does not contain any opinions or subjective interpretations.

## Variety in disclosures remains

Despite certain disclosures being mandatory at FY23, divergences in approaches, calibrations, and the level of granularity adopted are observed.

Some stakeholders, such as analysts, anticipated greater comparability post-IFRS 17. While there is now a consistent framework under which Australia and other markets are required to report under IFRS 17, there remains divergence among insurers within the Australian market.

Insurers are not expected to make wholesale changes over the short term, though some convergence in approaches or calibrations may occur over time.

## Next steps

It is likely that some insurers may seek to align IFRS 17 improvement activity with wider finance and actuarial transformation projects, to unlock the long-term benefits of the significant investments made.

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 and analyst community are most interested to see under IFRS 17.

We are supporting life and general, insurance and reinsurance companies with IFRS 17 enhancement and finance transformation. Reach out to your local PwC contact to hear more.

“IFRS 17, as a new standard, aims to enhance the comparability of financial reporting across the insurance industry. However, its implementation requires significant effort and interpretation, leading to a wide range of outcomes in the market. Over time, as practices evolve both in Australia and globally, we may see further evolution of approaches and a movement towards greater consistency.”

**Antonie Jagga**
PwC Australia
Insurance Leader

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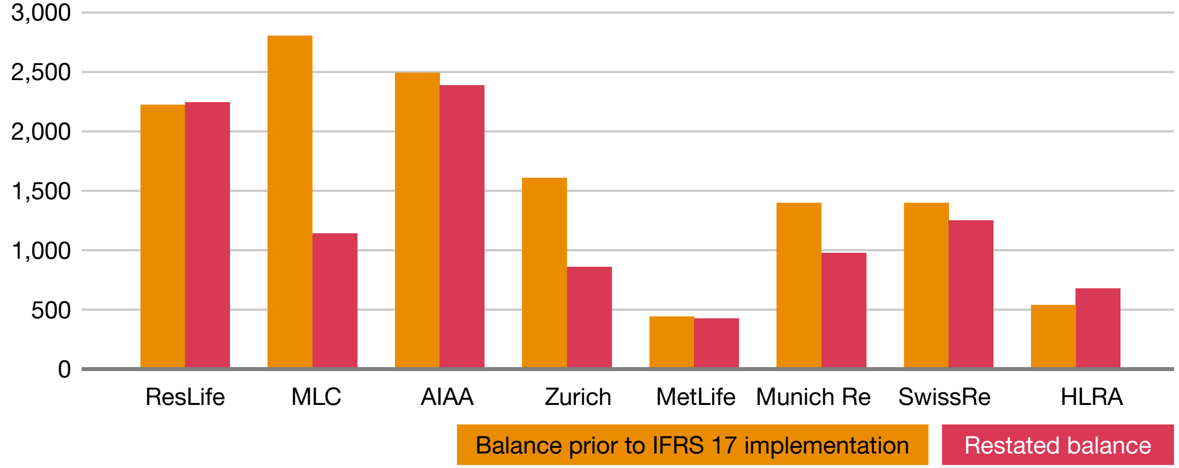
# Life insurance market deep dive

# What was the impact of adopting IFRS 17?

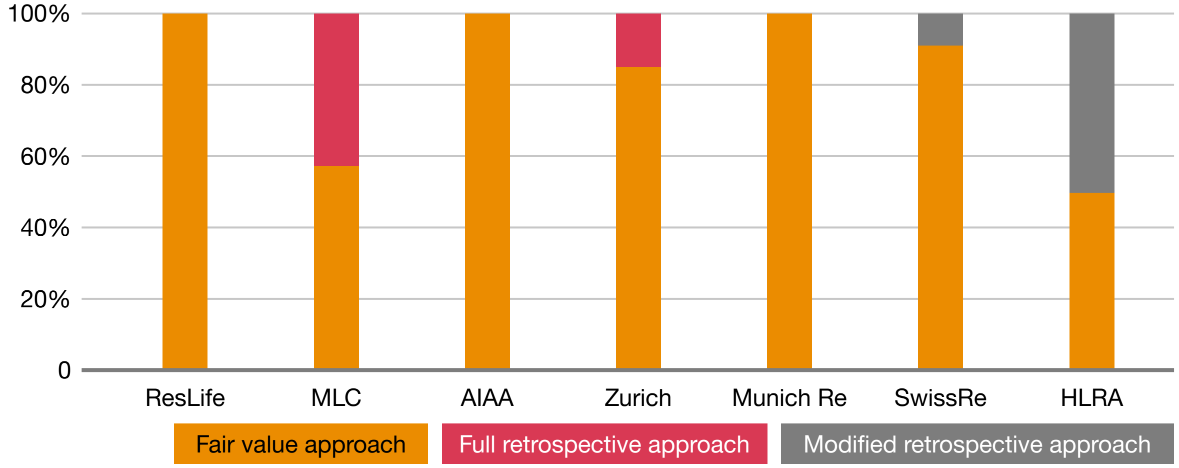
The directional and relative impact of the transition to IFRS 17 is difficult to assess as it depends on various factors including size and age of the business, organic versus acquired contracts, transition method adopted, and calibration of fair value (where applied) etc.

MLC experiences the largest reduction in equity on transition of c.$1,672.5m. The key driver of this movement was the application of the Premium Allocation Approach (PAA) to the valuation of eligible contracts, with the election to expense acquisition costs immediately for contracts with an initial contract period of up to 12 months. This resulted in the derecognition of acquisition costs previously deferred under AASB 1038, which increased the value of the liabilities on transition.

**Change in Equity at 1 January 2022 (transition) ($m)**




**Gross CSM**




Source: PwC analysis of YE23 related external disclosures

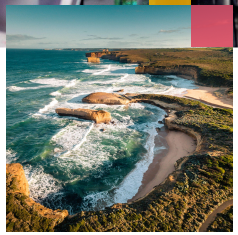
# Measurement model

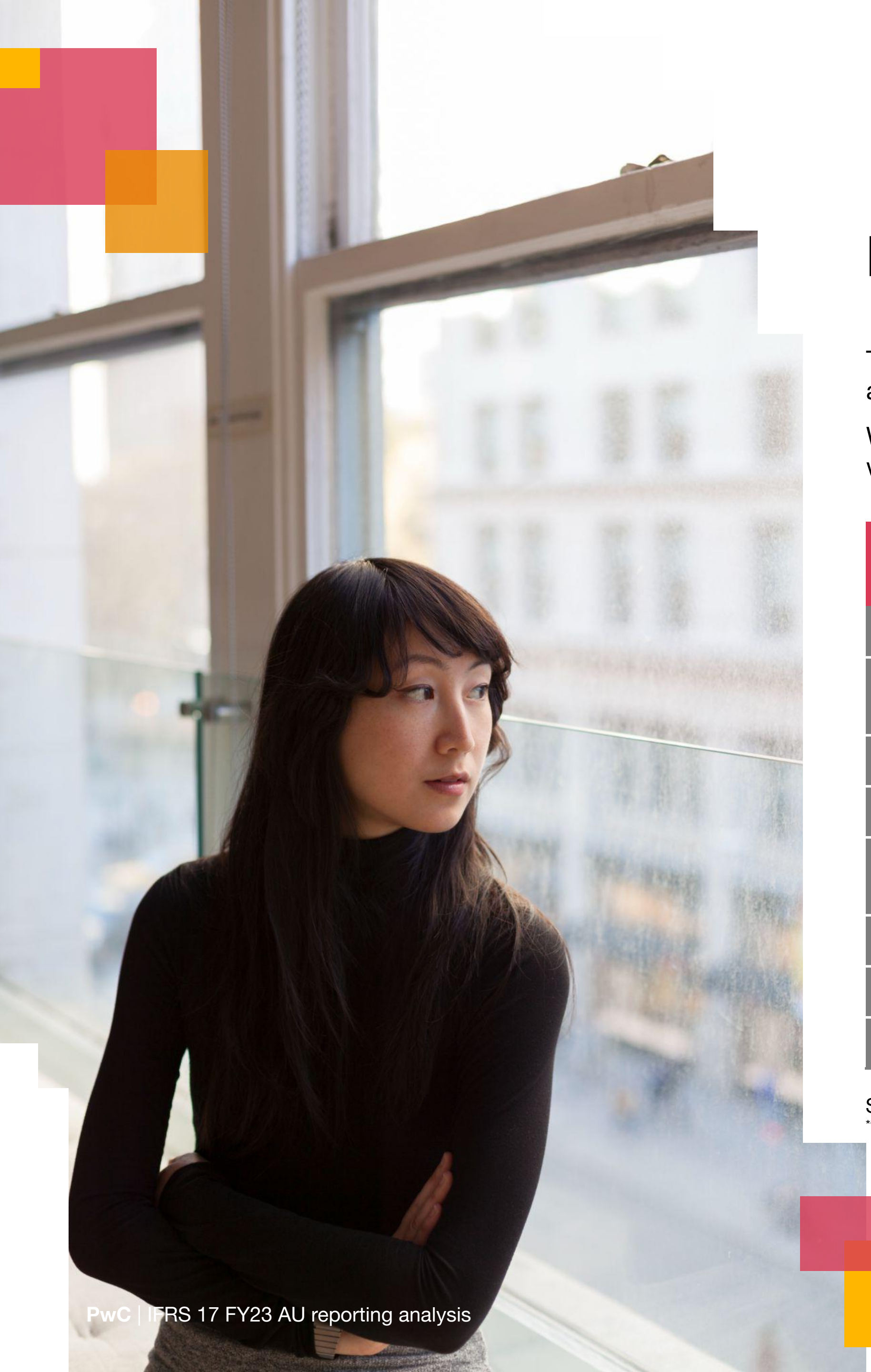
IFRS 17 introduced new measurement models for insurance contracts; the General Measurement Model (GMM), the Premium Allocation Approach (PAA), and the Variable Fee Approach (VFA).

We observe a consistent approach across the life insurance companies selected in the measurement model used for participating business, retail risk level premium business, lifetime annuities and retail risk reinsurance contracts. However, we observe different approaches used for retail risk stepped premium business and group risk business with companies adopting either a GMM or PAA approach.

<table>
<tr><th>Line of business</th><th>ResLife</th><th>MLC</th><th>AIAA</th><th>Zurich</th><th>MetLife</th><th>Munich Re</th><th>Swiss Re</th><th>HLRA</th></tr>
<tr><td>Participating business (including investment account)</td><td>VFA</td><td>VFA</td><td>VFA</td><td>VFA</td><td>N/A</td><td>N/A</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Retail risk - level premium</td><td>GMM</td><td>GMM</td><td>GMM</td><td>GMM</td><td rowspan="6" colspan="4">GMM (where relevant)</td></tr>
<tr><td>Lifetime annuities</td><td>GMM</td><td>GMM</td><td>GMM</td><td>GMM</td></tr>
<tr><td>Retail risk reinsurance contracts</td><td>GMM</td><td>GMM</td><td>GMM</td><td>GMM</td></tr>
<tr><td>Retail risk - stepped premium</td><td>PAA</td><td>PAA</td><td>GMM</td><td>GMM</td></tr>
<tr><td>Group risk (underlying insurance contracts and reinsurance contracts)</td><td>PAA</td><td>PAA</td><td>GMM</td><td>GMM</td></tr>
</table>

Source: PwC analysis of YE23 related external disclosures





# Risk Adjustment for non-financial risk

The Risk Adjustment for non-financial risk (RA) measures the compensation that an entity would require for bearing the uncertainty about the amount and timing of cash flows arising from insurance contracts for non-financial risk.

We observe a range of approaches adopted across the life insurance companies selected in the determination of the RA, and a wide spread of reported corresponding confidence intervals.

| Insurer | Method | 2022 VaR* confidence interval | 2023 VaR confidence interval |
|---|---|---|---|
| **ResLife** | Cost of capital | 82nd | 82nd |
| **MLC** | Cost of capital | 74th for insurance<br>68th for reinsurance | 76th for insurance<br>77th for reinsurance |
| **AIAA** | Confidence level technique | 75th | 75th |
| **Zurich** | Confidence level technique | 90th | 90th |
| **MetLife** | Cost of capital | 66th for Liability for Remaining Coverage<br>60th for Liability for Incurred Claims | 66th for Liability for Remaining Coverage<br>60th for Liability for Incurred Claims |
| **Munich Re** | Cost of capital | 87th | 88th |
| **Swiss Re** | Not disclosed | 56th | 55th |
| **HLRA** | Pricing margin | 61st | 61st |

Source: PwC analysis of YE23 related external disclosures
*VaR = Value at Risk

# Discount rates (including illiquidity premium)

The table and chart presented here outline the key aspects of discount rate assumptions adopted by the Australian life insurers selected as at 31 December 2023.

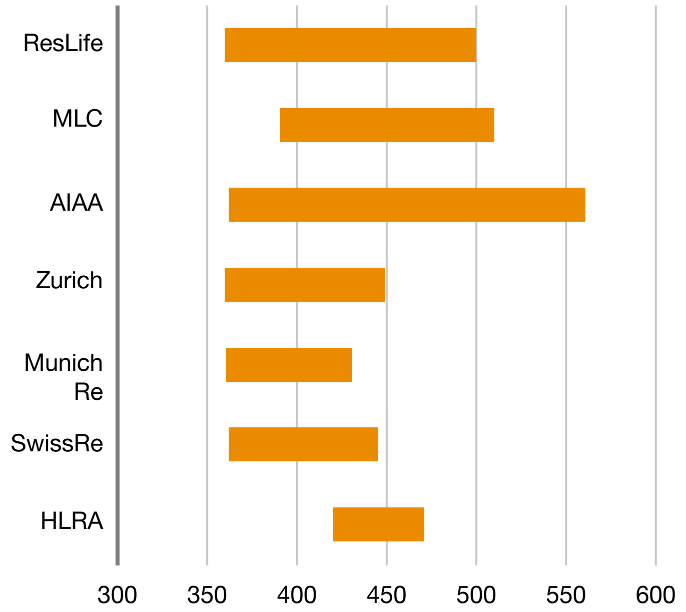
We observe a wide range of techniques used to determine risk-free rates and the illiquidity premium (where relevant), along with significant variation in the level of disclosure between the different companies.

Specific observations made are:

- Some companies disclose the term structure of risk-free rates and the illiquidity premium, whereas other companies generally provide a range;
- Some companies disclose how discount rates vary by line of business, whereas other companies do not.

| Company | Approach for GMM and PAA LIC* business | Risk-Free Rate | Illiquidity Premium |
|---|---|---|---|
| ResLife | Bottom up | 360-450 bps | CICP – 20 bps<br>Life annuities – 50 bps |
| MLC | Bottom up | Term life & DI (excluding CICP) – 390-510 bps<br>Life annuity – 410-480 bps[1] | |
| AIAA | Top down | 362-437 bps | 83-124 bps |
| Zurich | Bottom up | 360-449 bps[2] | |
| MetLife | Bottom up | Not disclosed | |
| Munich Re | Bottom up | 360-430 bps[3] | |
| Swiss Re | Bottom up | 362-445 bps[4] | 0 bps[4] |
| HLRA | Bottom up | 420-470 bps | |

**Discount rates (including illiquidity premium)**




Source: PwC analysis of YE23 related external disclosures
*LIC = Liability for Incurred Claims

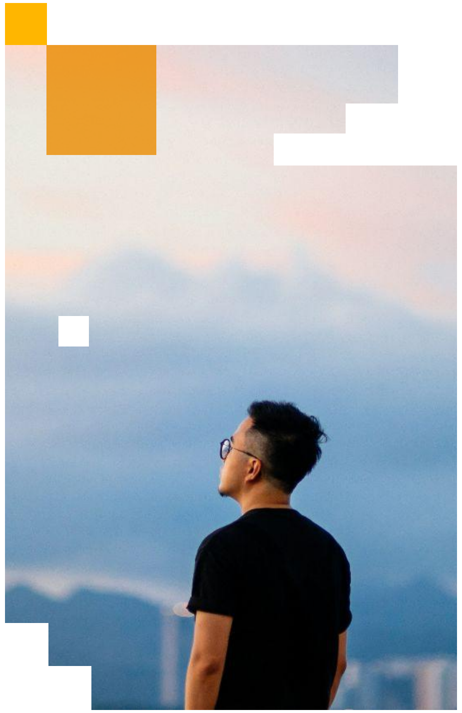
1. Illiquidity premium is linked to the 3-year non-financial corporate spread for A-rated securities.
2. Risk-free rates are determined by reference to EIOPA yields, while the illiquidity premium was derived in accordance with the EIOPA methodology for the construction of the Volatility Adjustment.
3. Risk-free rates are determined by reference to EIOPA yields.
4. Risk-free rates are determined relative to CGB rates. No additional illiquidity premium is applied as the illiquidity premium implicit in government bond rates compared with other instruments such as swap rates is considered to be sufficient.

# Sensitivity analysis

We observe a wide range of different approaches across the Australian life insurance companies selected in terms of the actual stresses performed, their magnitude and their direction.

We also observe significant variations in disclosures around how these stresses relate to best estimate cash flows, Contractual Service Margin (CSM), profit and equity on a gross and net of reinsurance basis.

| Insurer | Interest rate risk | Currency risk | Equity price risk | Inflation rate | Mortality and morbidity rates | DI incidence and termination rates | Discontinuance rates | Incurred but not reported | Maintenance expenses |
|---|---|---|---|---|---|---|---|---|---|
| ResLife | +/- 100 bps | +/- 10% | +/- 10% | Not stressed | +10% mortality<br>+20% morbidity | +10% / -10% | +10% | Not stressed | +10% |
| MLC | +/- 100 bps | +/- 10% | +/- 10% | +50 bps | +10% | +10% / -10% | +10% | Not stressed | +10% |
| AIAA[1] | +/- 50 bps | Not stressed | +/- 10% | Not stressed | +/- 10% | +/- 10% | +/- 10% | Not stressed | +/- 10% |
| Zurich[2] | +/- 100 bps | Not stressed | +/- 10% | Not stressed | +/- 10% | +/- 10% | +/- 10% | Not stressed | +/- 10% |
| MetLife[3] | +/- 100 bps | Not stressed | Not stressed | Not stressed | +10% | +10% / -10% | +10% | Not stressed | +10% |
| Munich Re | +/- 100 bps | Not stressed | Not stressed | Not stressed | +/- 0.25% mortality<br>+15% morbidity | Not stressed | Not stressed | Not stressed | Not stressed |
| Swiss Re | +/- 50 bps | +/- 5% | +/- 10% | +/- 50 bps | +/- 10% | +/- 10% | +/- 10% | +/- 10% | +/- 10% |
| HLRA | +/- 100 bps | +/- 10% | Not stressed | Not stressed | +10% | +10% / -20% | +10% | +10% | +10% |



Source: PwC analysis of YE23 related external disclosures

1. AIAA: No specific DI incidence and termination rate stress. Instead, total claims cost from mortality and morbidity is stressed.
2. Zurich: No specific DI incidence and termination rate stress. Instead, mortality, morbidity, incidence and discontinuance rates are stressed.
3. MetLife: No specific DI incidence and termination rate stress. Instead, mortality, morbidity and discontinuance rates are stressed.

# Release of Contractual Service Margin

The charts below show the release of the Contractual Service Margin (CSM) over time on a gross of reinsurance basis and for reinsurance contracts held as at 31 December 2023 for the life insurance companies selected.

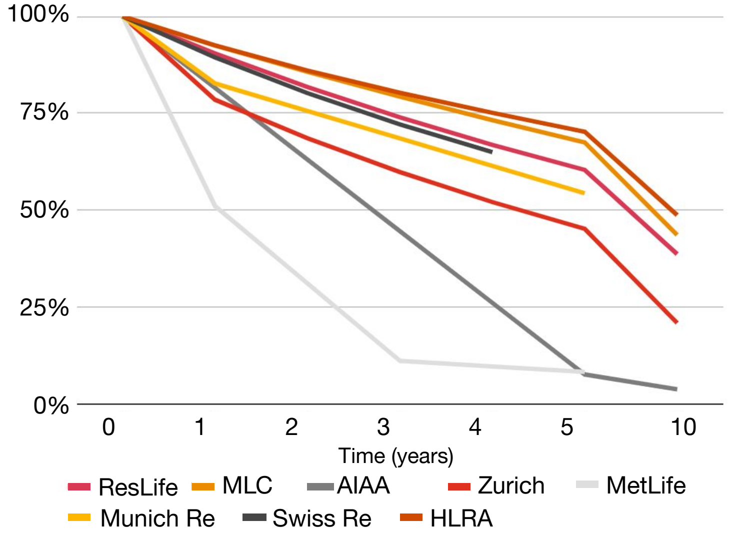
We observe significant variation in the pattern of CSM release over time on a gross of reinsurance basis.

Retail risk stepped premium business and group business will typically have a short contract boundary whereas other insurance business will typically have a longer contract boundary.

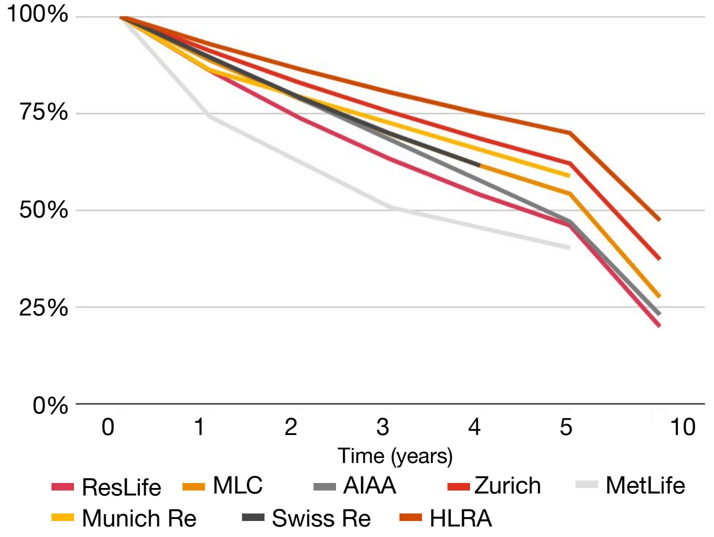
We also observe a wide range of different approaches in relation to the choice of time periods disclosed for CSM emergence.

For example, AIAA grouped CSM less than 4 years into one category while MetLife and Munich Re grouped CSM greater than 5 years into one category. For the charts on this page, it is assumed that CSM amortises in a straight line where non-annual periods are reported.

**CSM from (Re)insurance Contracts Issued**




**CSM from Reinsurance Contracts Held**




Source: PwC analysis of YE23 related external disclosures

# Other matters

The methods applied and level of disclosure of the topics below varied across the companies selected. The examples presented provide an illustration of the approaches adopted for each topic.

## Coverage units

We observe a range of methods used to calculate coverage units in relation to discounting and the linkage to benefit amount or expected claims across the life insurance companies selected. Illustrative examples are shown below:

| Insurer | Discounting Applied? | Benefit Amount or Expected Claims? |
|---|---|---|
| MLC | ✗ | Benefit amount |
| Munich Re | ✔ | Claim amount |

## Measures to calculate reinsurer non-performance

We highlight below the different approaches adopted by companies in relation to the potential impact of reinsurer non-performance on their portfolio:

| Insurer | Method |
|---|---|
| ResLife | The adjustment for reinsurer non-performance is zero unless evidence suggests otherwise. |
| Swiss Re | The effect of non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit and loss. |

## Liability for Incurred Claims (LIC) vs Liability for Remaining Coverage (LRC)

We illustrate examples below of the different treatment of claims in the course of payment and whether this is LIC or LRC:

| Insurer | Method |
|---|---|
| ResLife | Previously acquired claims in payment at transition are treated as LIC rather than LRC. |
| Swiss Re | Includes claims in the course of payment and acquired claims within the LRC. |
| HLRA | A distinction is made between a pre-claims phase (LRC) and a claims phase after occurrence of the insured event (LIC). The distinction is made according to an insured event yet to have occurred, which includes an unknown period of claim payments triggered by multiple insured events as LRC, and an insured event that has already occurred, which includes a single payment on an insured event as LIC. |

Source: PwC analysis of YE23 related external disclosures

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# General insurance market deep dive

# What was the impact of adopting IFRS 17?

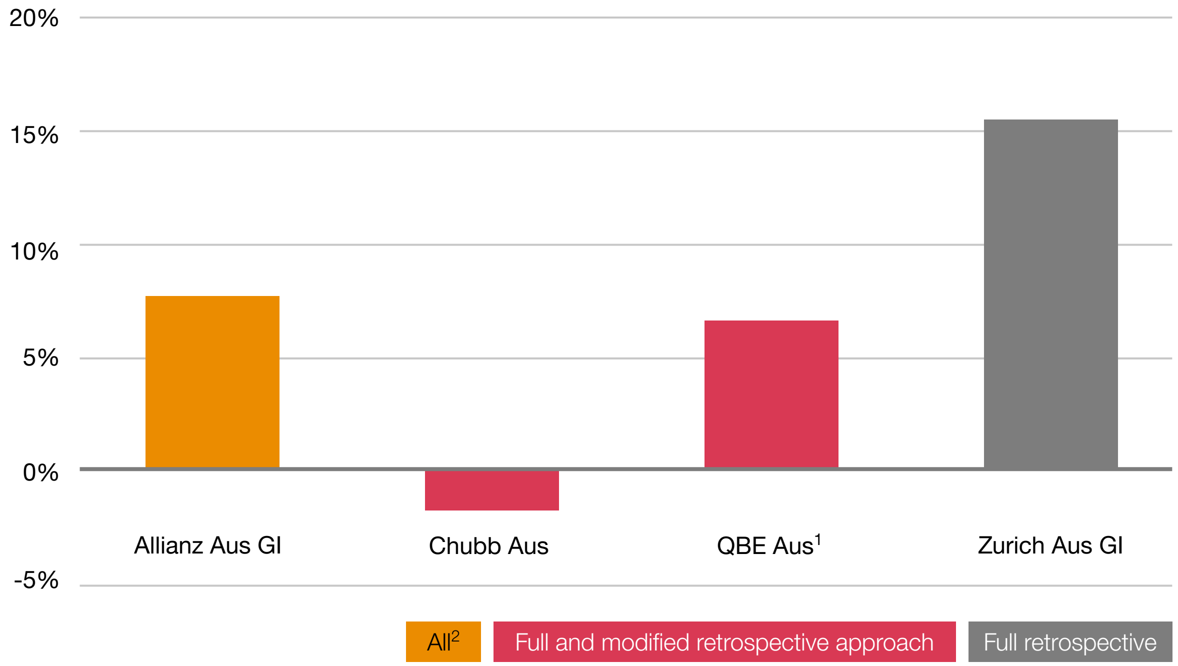
Under IFRS 17, the net assets of general insurance companies can be influenced by various factors such as:

- revenue recognition accounting policies;
- discount rate measurement (including illiquidity premium);
- risk adjustment for non-financial risk;
- treatment of reinsurer non-performance risk;
- inclusion and exclusion of direct and indirect attributable expenses;
- levels of aggregation (and identification of onerous groups of contracts);
- the measurement model used; and,
- tax implications.

All of these factors influence how insurance contracts are valued and reported, making it difficult to assess the impact of the above components on the transition to IFRS 17.

Across the general insurance companies selected, the impact of transition to IFRS 17 on net assets varies across the range of -2% to +16%. Zurich is the only company selected which applied the Full Retrospective Approach (FRA) across all insurance contracts.

**IFRS 17 transition increase/(decrease) percentage to net assets**




Source: PwC analysis of YE23 related external disclosures

1. QBE Aus refers to QBE Insurance (Australia) Limited, see page 18 for full list of companies selected.
2. All is as a combination of the Fair Value Approach, the Modified Retrospective Approach and the Full Retrospective Approach.

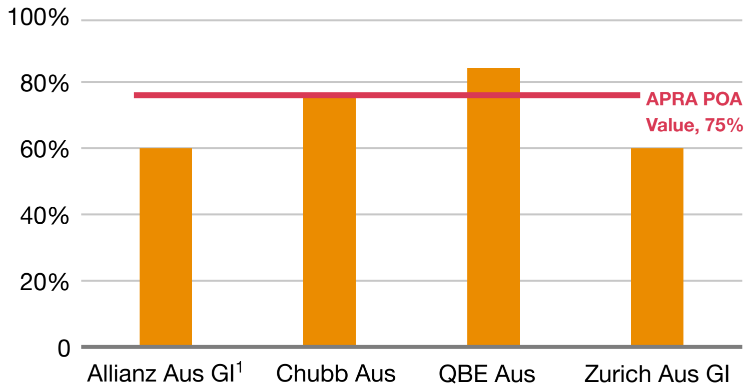
# Risk Adjustment and Reinsurance Non-Performance Risk

There are different approaches that can be taken to calculate the risk adjustment under IFRS 17. Out of the insurers selected, 2 used the cost of capital method and 2 used the confidence level approach. Across the insurers selected, risk adjustment confidence levels ranged from 55% to 81%.

All insurers selected have accounted for reinsurance non-performance risk, but the quantum and measurement methodology are not consistently disclosed.

| Company | Implemented risk adjustment methodology | Are reinsurance counterparty non-performance risk outcomes disclosed separately? |
|---|---|---|
| Allianz Aus GI | Cost of capital | ✔ |
| Chubb Aus | Confidence level | × |
| QBE Aus | Cost of capital | ✔ |
| Zurich Aus GI | Confidence level | ✔ |

**Risk adjustment confidence level as at Dec 2023 (IFRS 17)**




Source: PwC analysis of YE23 related external disclosures
1. Allianz Aus GI is between 55%-60%.

## Challenges when comparing confidence levels

### Gross vs. net of reinsurance

It is open to preparers of financial statements to disclose separate risk adjustment confidence levels for gross groups of contracts and reinsurance groups of contracts held; however no company selected have chosen to do so.

### Effect of Group-level diversification

No company selected have discussed the extent of diversification and the quantitative impact this had on the risk adjustment. It is common for branches and subsidiaries of global Groups to be allocated some inter-country or inter-entity diversification benefits.

### Incurred claims vs. remaining coverage.

All companies selected measure gross remaining coverage under the PAA. The confidence level on the premium liabilities that used to be disclosed in the LAT under AASB 1023 is no longer being disclosed under IFRS 17 for liability for remaining coverage measured under the PAA for all insurers selected.

# OCI

Two of the companies selected chose to use the OCI option under IFRS 9, noting both are subsidiaries of European insurance holding companies.  It is observed from global IFRS 17 FY23 reporting analysis that it is more common in Europe (including the UK) for companies to measure financial assets at fair value through OCI under IFRS 9. The same two companies have also elected the corresponding accounting policy under IFRS 17 of disaggregating insurance finance income or expenses into P&L vs. OCI, through a systematic allocation of the expected total insurance finance income or expenses over the duration of their groups of insurance contracts. The other two companies selected chose not to use the OCI option under either IFRS 9 or IFRS 17.

| Company | Elected to use OCI? | Debt instruments | Equities | Derivatives | Finance loans | Unlisted trusts | Infrastructure | Shares in controlled entities |
|---|---|---|---|---|---|---|---|---|
| **Allianz Aus GI** | ✓ | FV OCI | FV P&L | n/a[1] | Amortised costs | FV P&L | n/a[1] | Historical cost less impairment |
| **Chubb Aus** | ✗ | FV P&L | n/a[1] | FV P&L | n/a[1] | n/a[1] | n/a[1] | n/a[1] |
| **QBE Aus** | ✗ | FV P&L | FV P&L | FV P&L | n/a[1] | FV P&L | FV P&L | Historical cost less impairment |
| **Zurich Aus GI** | ✓ | FV OCI and FV P&L | FV P&L | n/a[1] | n/a[1] | n/a[1] | n/a[1] | FV P&L |

Source: PwC analysis of YE23 related external disclosures

1. In this table, n/a may represent not separately disclosed or not applicable or unclear from information presented in disclosures

# Other matters

## Sensitivity Analysis

General insurers in Europe and the UK have generally considered new sensitivities in their disclosures. Most in Australia that we have selected have maintained traditional sensitivities, such as discount rates and term to settlement as shown below.

| Stressed factor | Risk adjustment | Financial asset price | Financial asset interest rate | Wage and super-imposed inflation | Economic inflation | Discount rate | Claims handling | Average weighted term to settlement |
|---|---|---|---|---|---|---|---|---|
| Allianz Aus GI | ✔ | ✔ | ✔ | × | ✔ | ✔ | ✔ | ✔ |
| Chubb Aus | × | ✔ | ✔ | × | × | ✔ | ✔ | ✔ |
| QBE Aus | ✔ | ✔ | ✔ | × | ✔ | ✔ | × | ✔ |
| Zurich Aus GI | × | ✔ | ✔ | ✔ | × | ✔ | × | ✔ |

## Discounting

The level of detail within the notes to the financial statements varies. Some of the insurers selected disclose more information around the term structure of insurance liabilities and yield curve used; some disclose weighted average terms by short- vs. long-tail classes, whereas others disclose a single weighted average term and discount rate for the entire company.

| Company | Average term to settlement (years) | Discount rate for insurance contracts | Superimposed inflation | Illiquidity premium |
|---|---|---|---|---|
| Allianz Aus GI | ST – 0.56<br>LT – 2.63 | ST – 4.3%<br>LT – 4.2% | ST - Not disclosed<br>LT - 0% - 3.1%% | 0.3% |
| Chubb Aus | 2.20 | 3.7% | Not disclosed[2] | Not disclosed |
| QBE Aus | 2.18[1] | 4.2%[1] | Not disclosed | Not disclosed |
| Zurich Aus GI | ST – 0.6<br>LT – 3.3 | ST – 4.5%<br>LT – 4.3% | ST - Not disclosed<br>LT - 0% - 6.25% | Not disclosed |

Source: PwC analysis of YE23 related external disclosures

1. QBE Aus disclosed more granular information on maturity profile of the net insurance liabilities as well as the discount rates used to discount insurance contract liabilities and reinsurance contract assets. For the purpose of this table, the information disclosed by QBE Aus is being condensed into single figures in order to fit into the table. It is nevertheless observed that the level of detail within the notes to the financial statements varies greatly.
2. Not applicable is used we are unable to comment whether this is not applicable and hence there is nothing to disclose versus applicable and applied but not disclosed quantitatively.

# Other matters

## Measurement model

All companies selected have used PAA for all insurance and reinsurance groups of contracts held, except for adverse development cover. Under the PAA, IFRS 17 requires insurers to adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk if a significant financing component is determined to exist. However, no insurer selected has reflected the time value of money and the effect of financial risk, implying that no significant financing component exists within remaining coverage for any of the insurers selected.

## Disclosure

Users of financial statements continue to face challenges in performing their own analysis and comparisons due to limited discussion in the Notes on insurance revenue or expense results, business mix, target market segments, and profitability across portfolios. For example, three of the insurers selected have kept disclosures simple, avoiding complex GMM disclosures for adverse development cover, not overcomplicating sensitivity analysis, and keeping qualitative discounting information to a minimum.

## Loss components

Loss components and loss recovery components are very minimal among the insurers selected. The extent of cross-subsidisation has not been made significantly clearer compared with the whole-of-portfolio Liability Adequacy Test (LAT) under AASB 1023.

## Reinsurance income and expense disclosure

IFRS 17 allows companies to present income or expenses from reinsurance contracts held as a single amount on the Statement of Comprehensive Income (with more granular disclosures in the notes), and all of the insurers selected have elected this approach, with the exception of QBE Aus.

## Discounting

IFRS 17 allows companies to not discount fulfilment cash flows for incurred claims if these cash flows are expected to be paid in one year or less from incurred date. This is a simplification from AASB 1023. Zurich Aus elected to not discount these cash flows under IFRS 17.

## KPI disclosures[1]

There is limited information on KPIs or changes to KPIs following the transition to IFRS 17 in the disclosures of the companies selected. For example, internationally, there's a shift from GWP-based metrics to insurance revenue metrics under IFRS 17, however this isn't clear in the Australian disclosures compared for this publication.

Additionally, combined operating ratio (COR) is not a required IFRS 17 disclosure however almost all general insurers in the UK market disclose this ratio where all of the selected Australian insurers have not.

Source: PwC analysis of YE23 related external disclosures

1. This report compares four unlisted companies with December year-ends only. Following the June year-end reporting, a more comprehensive comparison of KPI disclosures will be possible

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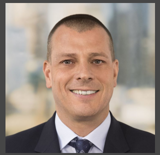

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Thank you to the dedicated PwC team who contributed to the publication of this report, including:

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- Jenny Zhang, Senior Manager
- Jemma Doherty, Manager
- Sam Bray, Associate

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# Appendices

## Companies included

### Life Insurance

- Resolution Life Australasia Limited
- MLC Limited
- AIA Australia Limited
- Zurich Australia Limited
- MetLife Insurance Limited
- Munich Reinsurance Company of Australasia Limited
- Swiss Re Life & Health Australia Limited
- Hannover Life Re of Australasia Ltd

### General Insurance

- Allianz Australia Insurance Limited
- Chubb Insurance Australia Limited
- QBE Insurance (Australia) Limited
- Zurich Australian Insurance Limited

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