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First Year's Application of IFRS 17 in the Financial Statements of European Insurance Companies

In 2024, the largest insurance companies published for the first time a full-year financial disclosure based on IFRS 17 and IFRS 9. Deloitte workgroup performed an analysis on IFRS 17 disclosure, focusing on 24 European insurance companies, with data from 2023 audited annual reports. The sample includes insurers from the EU, UK, Norway, and Switzerland, selected by total assets and contract types. The outcomes are provided in the article *First year's application of IFRS 17 in the financial statements of European insurance companies* which was published in the MAB (Maandblad voor Accountancy en Bedrijfseconomie). This article summarizes the key takeaways from this article.

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THE TRANSITION FROM IFRS 4 TO IFRS 17

IFRS 17 significantly transforms insurance contract accounting, promising greater transparency and comparability. Released by the IASB in May 2017 and endorsed by the EU and UK, it addresses IFRS 4's shortcomings and potential accounting mismatches. This comprehensive transition offers a more insightful financial statement narrative, aiding informed stakeholder decisions. While complex, it aligns insurance accounting with economic realities, thereby improving financial statements.

In our analysis, we focused on the insurers' transition approaches, the resulting financial impacts, and disclosures. Insurers had to restate their balance sheets as of January 1, 2022, posing challenges due to data availability, especially for long-standing contracts. IFRS 17 offers three approaches for determining the Contractual Service Margin (CSM) at the transition date, namely Full Retrospective Approach (FRA), Modified Retrospective Approach (MRA), and Fair Value Approach (FVA). Each approach impacts shareholders' equity differently based on the insurer's choice. The choice could be driven by the availability of data and/or the preference to show a large CSM (and a lower Equity) at transition or, on the contrary, to show a lower CSM but a larger Equity at transition. Newer contracts and short-term Non-Life business are often valued using the FRA approach given the historical data availability.

Table 1. Transition approaches used

Approach	Number of insurers	Percentage
FRA, MRA, and FVA	10	42%
MRA and FVA	6	25%
MRA and FRA	3	13%
FRA and FVA	1	4%
Only FVA	1	4%
Only FRA	1	4%
Only MRA	1	4%
Undefined	1	4%
Total	**24**	**100%**

Several large insurers adopted different approaches for different types of insurance contracts, and 10 insurers used all three methods. In terms of quantitative impact, a large portion of the insurers (46%) reported a drop in equity at the transition date exceeding 10%. It is challenging to establish a common pattern between the adoption of the FRA and MRA over the FVA and their impact on equity. This link is influenced by several factors, including the type of business, the actuarial retrospective assumptions used to evaluate the Contractual Service Margin (CSM), and the historical period during which contracts were recognized.

Table 2. Quantitative impact on equity at transition date

Equity impact	Number of insurers	Percentage*
-10% or lower	11	46%
-10% to -5%	5	21%
-5% to -2.5%	2	8%
-2.5% to 0%	2	8%
0% to 2.5%	1	4%
2.5% to 5%	1	4%
5% to 10%	1	4%
10% or more	1	4%
Total	**24**	**100%**

* due to rounding percentages do not sum up to 100

Disclosure under IFRS 17 requires detailing the CSM and insurance revenue reconciliation, methodologies used, and disaggregating finance income/expenses between profit or loss and other comprehensive income (OCI). Insurers vary in the level of detail provided, with some offering comprehensive breakdowns of insurance KPIs by business line and transition approach, while others provide high-level overviews. Where FRA is used, expert judgment is crucial due to retrospective data needs, involving assumptions like interest rate and inflation curves. Some insurers, like Allianz Group, Munich RE, and Gjensidige, provided notably detailed and clear disclosures, helping stakeholders understand the transition effects on equity.

OTHER DISCLOSURE AND METHODOLOGICAL ASPECTS ANALYZED

Regarding disclosure and methodological standards, we analyzed annual reports for diversity, compliance, and best practices concerning liability methodological approach, analysis of change disclosure, reporting granularity, and risk sensitivity disclosure.

For liability methodological assumptions, we focus on discount curves and risk adjustments. Regarding the discount curve, almost all insurers use a bottom-up approach based on a liquid risk-free curve, adjusting for illiquidity premiums and long-term rate. Few use a top-down approach. A detailed disclosure is often lacking, though NN Group provided exemplary disclosure with comprehensive details. Regarding the RA, insurers used Confidence Level, Cost of Capital, and (less frequently) Pricing Margin for risk adjustments. However, technical details are often missing, particularly for the Cost of Capital approach (used by 38%). Only a few (6) insurers disclose a multi-year confidence interval.

Table 3. Discount rate approach

Approach	Number of insurers	Percentage
Bottom-up only	21	88%
Top-down only	1	4%
Bottom-up and top-down	2	8%
Total	**24**	**100%**

Table 4. Risk adjustment elements identified

Risk Adjustment Approach	Number of insurers	Percentage
Confidence Level (CL)/ Percentile	12	50%
Cost of Capital (CoC)	9	38%
Confidence level/ Percentile and Pricing margin	1	4%
Pricing margin only	1	4%
Undefined	1	4%
Total	**24**	**100%**

Insurers provide similar information regarding the analysis of change of insurance liabilities and are compliant with IFRS 17. However, improvements are needed in disclosing experience adjustments and change estimates, which are often presented at an aggregate level. Regarding the experience adjustment, affecting current service cost, these are usually presented at an aggregate level, which does not allow the user to understand the nature and reason for the experience adjustment. The same applies to changes in estimates, where amounts are typically split by measurement model only, without providing comprehensive information about the nature of these changes.

It is worth mentioning the use of the carve-out option (removing the annual cohort requirement) allowed by EU regulation. Some insurers apply this exemption, mostly in France, Italy, and Spain. In contrast, other insurers like Athora and Aegon (now part of a.s.r.) use stricter disaggregation for their (non PAA) portfolios. Both companies group contracts on a quarterly cohort basis, meaning that even a larger variation exists within our sample in terms of time intervals of the cohorts.

Lastly, we looked at the disclosure of risk sensitivities required by IFRS 17. Most insurers meet the reporting requirements but often rely directly on Solvency II for sensitivity analyses. Although the two frameworks share similarities, differences in discounting assumptions, contract boundaries, risk adjustment, risk margin, and the treatment of onerous contracts can affect the accuracy of Solvency II sensitivity analyses for IFRS 17 purposes. More detailed and IFRS17-specific sensitivity disclosures are encouraged to enhance understanding of financial risks and assumptions.

PRESENTATION OF INSURANCE RESULT AND (ADJUSTED) OPERATING RESULT

The analysis focused also on the use of other comprehensive income (OCI) and alternative performance measures (APMs). Regarding the OCI, insurers can choose to present insurance finance income or expenses in profit or loss (P&L) or disaggregate them in OCI. Nevertheless, the different choices can affect the comparability of the IFRS 17 profit. Some insurers, like Athora, choose not to use the OCI option to align the presentation of financial assets and liabilities in P&L, though it may cause profit volatility arising from market movements.

Despite IFRS 17 being aimed at providing a more consistent picture of performance, we observed that especially the larger insurance companies use an adjusted insurance performance measure (APM) as an indicator of the performance of their insurance business, like the Operating Result, whose definition usually differs across insurers. Despite the fact that reconciliations are given, it is difficult to compare insurance companies' alternative performance measures due to the large variation in reconciling items. Furthermore, the IFRS subtotal is also subject to important accounting policy choices, like the use of the OCI option, the options in IFRS 9, and the EU-carve-out option but also the choices that have been made at the transition date to IFRS 17. We observe that out of the 17 insurance companies that use the OCI option for insurance finance expenses or income, 6 insurers (35%) are using an alternative performance measure related to the insurance result.

Many insurers present several APMs together, like combined ratios and operating capital creation. There's no common framework for performance measures under IFRS 17; hence users of the financial statements should consider carefully how the APM is determined.

CONCLUSION

The first full-year disclosures under IFRS 17 showed mixed results. While compliance with methodologies is evident, from an information usefulness perspective, improvements are needed. The diversity of the accounting policies related to the transition, the use of presentation and disaggregation options (like the OCI option or the EU carve-out), the large variation in the time intervals of the cohorts used for bundling purposes (from a quarter to multi-year), and the models used in the subsequent insurance liability measurement (including interactions with Solvency II), present a challenge to a proper peer-to-peer analysis of the actors in the insurance market. ■