S&P Capital IQ PRO

IFRS 17 is the most significant change in the insurance landscape. S&P Global Market Intelligence provides assistance in understanding and analyzing the financials of insurance companies.

IFRS 17 replaces IFRS 4 Insurance Contracts. When introduced in 2004, IFRS 4—an interim Standard—was meant to limit changes to existing insurance accounting practices. Hence, IFRS 4 has allowed insurers to use different accounting policies to measure similar insurance contracts they write in different countries.

IFRS 17 is the first truly international IFRS Standard for insurance contracts. IFRS 17 provides consistent principles for all aspects of accounting for insurance contracts. It removes inconsistencies and enables investors, analysts, and others to compare companies, contracts, and industries meaningfully.

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents Insurance contracts. This information gives a basis for users of financial statements to assess insurance contracts' impact on the entity's financial position, financial performance, and cash flows.

Key Concepts of IFRS 17

Level of aggregation / onerous contracts- Separate profitable and loss-making contracts. Insurance contracts are subject to similar risks and managed as a single pool. Contracts in different product lines would be in various portfolios. Contracts should be issued within the same 12-month period.

Contractual Service Margin (CSM)- The contractual service margin is calculated when the contract is written. The unearned profit is expected to be recognized as the insurance contract services are provided. It is amortized over the remaining life of the contract. It is adjusted for changes in future cash flows.

- Only recognize when the group of contracts is not Onerous.
- Expected profit – is not recognized in P&L or OCI. It is recognized in the balance sheet and amortized over a period.
- Expected Loss- Immediately recognized in P&L.

Risk Adjustment (RA)- Adjustment to make the insurer indifferent between the PV of the uncertain cash flows and certain cash flows.

Fulfillment cash flow -Operating cash flow corresponds to net cash provided by the company's core business, i.e., net cash provided by operating activities, excluding net cash provided by or used in investing and financing activities.

What to expect under IFRS 17 Reporting?

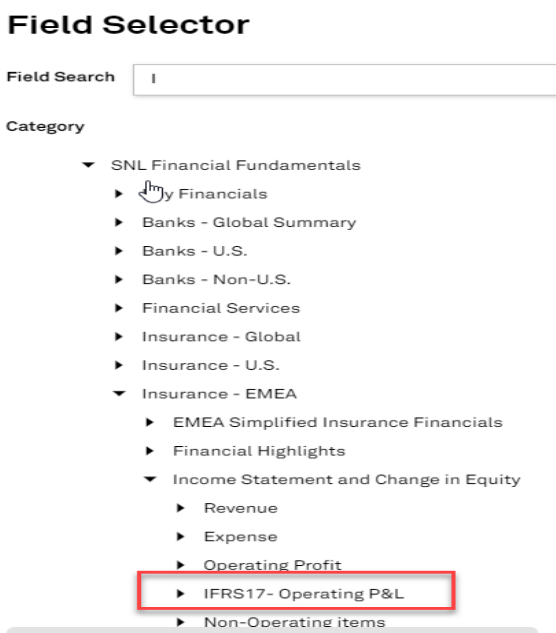
IFRS 17 significantly impacts how the company reports its income statement. The company no longer presents the IFRS 4 concepts such as Premiums information. The calculation for combined ratio, Loss ratio, and Expense ratio is changing drastically. There are a few new concepts the company is adopting, such as insurance revenue, insurance service expenses, and insurance results, which will be part of the company's presentation from now on. There are no changes in the reporting side for Investment and Investment income and most of the Balance sheet. Insurance contracts and Reinsurance contracts will be reported, but there is a change in methodology due to aggregation of contracts.

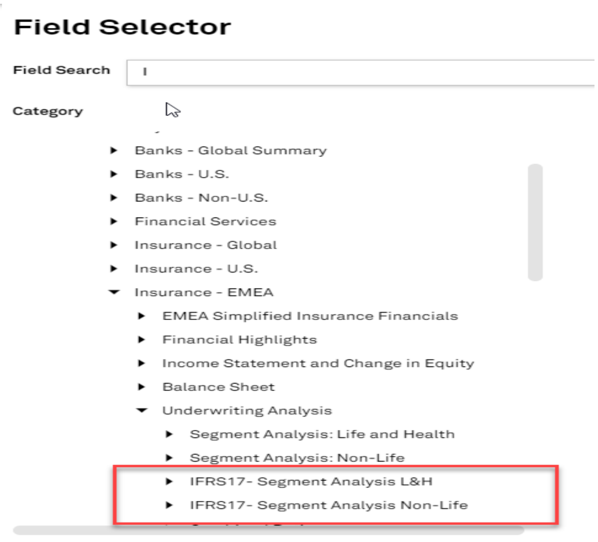
Example of Income statement reporting

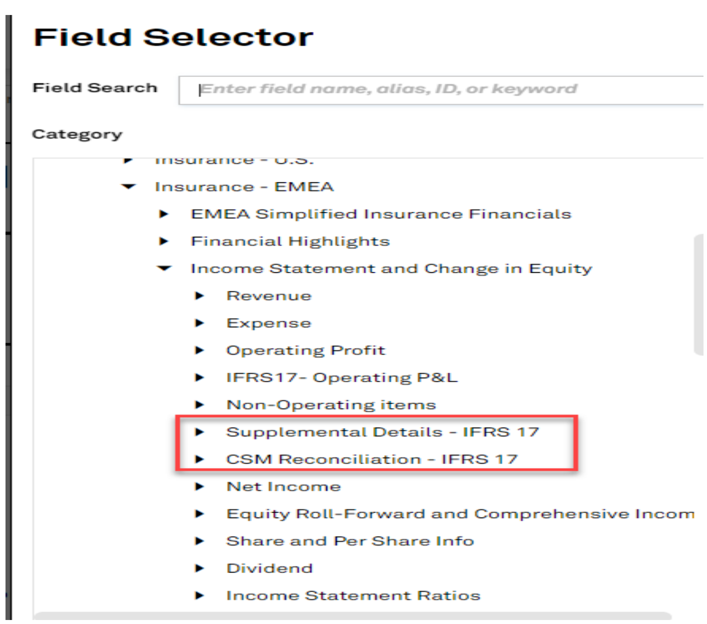
Statement of comprehensive income	
Insurance revenue	X
Insurance service expenses	(X)
Reinsurance expenses	(X)
Insurance service result	**X**
Insurance finance income / (expense)	X/ (X)
Investment income	X
Investment expenses	(X)
Net financial result	**X**
Administrative expenses	(X)
Other expenses	(X)
Profit or loss	**X**
Effect of discount rate changes on insurance liabilities	X
Total comprehensive income	**X**

S&P Global helps to cater all your workflow for IFRS 17

Our users can access this data through the S&P Capital IQ Pro Screener tool and the Web Platform. IFRS 17 fields are added across the Income statement and balance sheet. There are two new disclosures for IFRS 17 segment analysis - Life & Health and Property & Casualty for all applicable insurance companies. Supplement details, along with the CSM Reconciliation section, are also added.

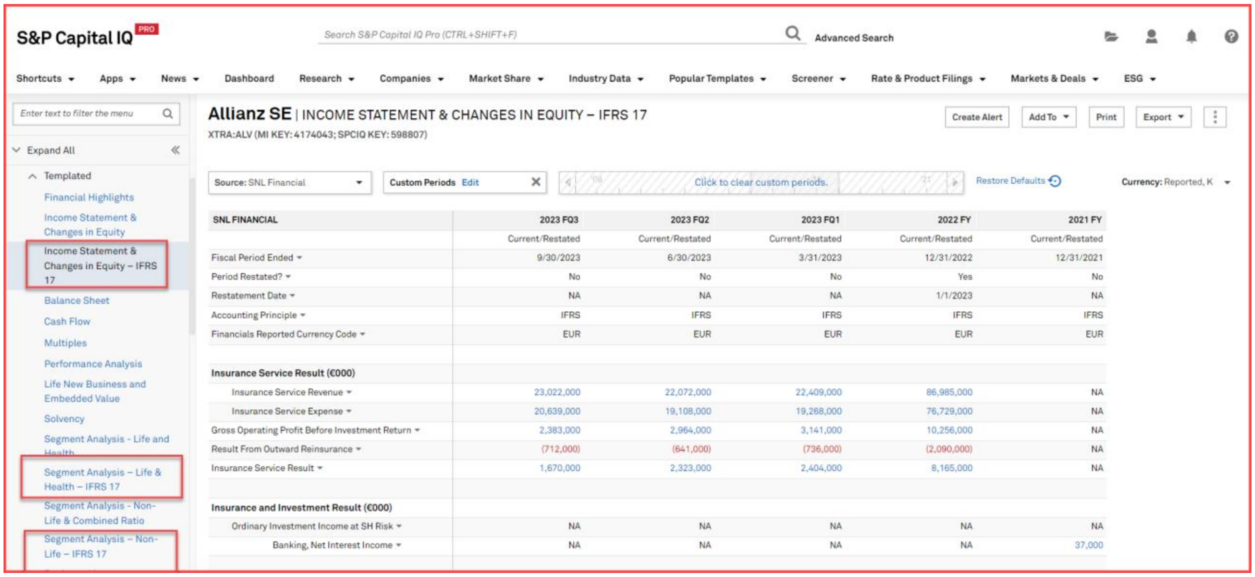






IFRS 17 data can also be accessed through our desktop web pages for insurance companies' financial sections. Information is only available for companies that adopt the IFRS 17 regulations.

Note: Once the company adopts IFRS 17, the user will see "NA" for most fields in the old income statement page and segment pages because Premium and other information impacted by IFRS 17 is unavailable. Once the company adopts IFRS 17 regulation, the user needs to look at newly created Income statements and Segment pages made for IFRS 17.



SNL FINANCIAL	2023 FQ3	2023 FQ2	2023 FQ1	2022 FY	2021 FY
	Current/Restated	Current/Restated	Current/Restated	Current/Restated	Current/Restated
Fiscal Period Ended	9/30/2023	6/30/2023	3/31/2023	12/31/2022	12/31/2021
Period Restated?	No	No	No	Yes	No
Restatement Date	NA	NA	NA	1/1/2023	NA
Accounting Principle	IFRS	IFRS	IFRS	IFRS	IFRS
Financials Reported Currency Code	EUR	EUR	EUR	EUR	EUR
Insurance Service Result (€000)					
Insurance Service Revenue	23,022,000	22,072,000	22,409,000	86,985,000	NA
Insurance Service Expense	20,639,000	19,108,000	19,268,000	76,729,000	NA
Gross Operating Profit Before Investment Return	2,383,000	2,964,000	3,141,000	10,256,000	NA
Result From Outward Reinsurance	(712,000)	(641,000)	(736,000)	(2,090,000)	NA
Insurance Service Result	1,670,000	2,323,000	2,404,000	8,165,000	NA
Insurance and Investment Result (€000)					
Ordinary Investment Income at SH Risk	NA	NA	NA	NA	NA
Banking, Net Interest Income	NA	NA	NA	NA	37,000

With our upcoming release 24.03, users can find CSM reconciliation, Risk adjustment information, LIC and LRC Insurance and Reinsurance contract information, Profitability ratios like Loss ratio, expense ratio, and Combined ratio, and a few other important metrics.

Frequently Asked Questions

Q-1: How is the implementation of IFRS 17 going to change the outlook for insurance companies?

Ans.: IFRS 17 can change the Outlook for insurance companies in the following way.

A. Increased transparency and comparability:
   - Improved market understanding of insurers' true financial position and risk profile.
   - Potentially lower cost of capital due to increased investor confidence.
   - More informed decision-making by stakeholders.

B. Potential changes in profitability and capital requirements:
   - Short-term volatility in reported profits, especially for companies with long-term contracts.
   - Changes in capital requirements due to different risk profile recognition.
   - Potential product pricing and design adjustments to optimize profitability under the new accounting framework.

C. Operational and cost implications:
   - Increased operational costs and resource allocation.
   - Potential delays and challenges during the implementation process.
   - Opportunities for efficiency improvements and streamlining data and reporting processes.

Q-2: How Solvency II differs from IFRS 17

Ans.: Solvency II and IFRS 17 differ in specific ways.

A. Risk Assessment:
   - Solvency II: Employs a more comprehensive approach considering both quantitative and qualitative factors to assess risks, including underwriting risk, market risk, and operational risk.
   - IFRS 17: Primarily focuses on three main risk categories: market, credit, and insurance.

B. Profit Recognition:
   - Solvency II: Profits are recognized risk-adjusted, considering potential future claims and uncertainties.
   - IFRS 17: Profits are recognized as services rendered over the life of the insurance contract, reflecting the gradual fulfillment of obligations.

Disclosure:

- Solvency II: Requires detailed regulatory reports with specific metrics and risk assessments submitted to authorities.
- IFRS 17: Focuses on providing standardized, comparable financial statements across companies and industries.

Q-3: Will IFRS 17 impact the company's solvency position or solvency ratio?

Ans.: While IFRS 17 itself doesn't directly increase the solvency ratio, the actual impact depends on factors like the specific business model, product mix, and financial health of each company. Its effects on Solvency will mainly be attributed to transparency, risk management, and financial flexibility.

A. Increased transparency: By providing a clearer picture of an insurance company's liabilities and risk profile, IFRS 17 can improve market confidence, potentially leading to lower capital costs and accessibility.
B. Changes in risk profile recognition: IFRS 17 requires recognizing some risks not previously accounted for, potentially leading to higher reported liabilities. This could lead to a decreasing solvency ratio in the short term.
C. Pricing and product design adjustments: Changes in profitability under IFRS 17 might lead some insurers to increase premiums, which could directly contribute to higher capital reserves and potentially improve solvency ratios. Also, insurers might focus on lower-risk products that could improve risk management and strengthen capital adequacy.

Q-4: How are Insurance contract liabilities measured under IFRS 17?

Ans.: The measurement of insurance contract liabilities is significantly different under IFRS 4 and IFRS 17.

A. Measurement Basis:
    - IFRS 4: Allowed various approaches, including historical cost, discounted cash flows, and market-consistent approaches. This led to inconsistencies and limited comparability.
    - IFRS 17: Requires present value of expected future cash flows discounted at risk-adjusted discount rates. This aims for a more consistent and transparent measure of liabilities.
B. Risk Adjustment:
    - IFRS 4: Did not explicitly require risk adjustment, allowing companies to choose whether or how to include it. This led to significant variations in reported liabilities.
    - IFRS 17: Mandates explicit risk adjustment based on estimated future claims and uncertainties. This improves transparency and reflects the inherent risks in insurance contracts.

C. Profit Recognition:
   - IFRS 4: Recognized profits upfront, often when premiums were collected, leading to potential volatility and mismatching with actual service delivery.
   - IFRS 17: Profits are recognized over the contract's life as services are rendered, reducing volatility.

Q-5: How are Investment contract liabilities and Unit-linked liabilities measured under IFRS 17?

Ans.: The measurement of investment contract and Unit-linked contract liabilities significantly differs under IFRS 4 and IFRS 17.

A. Investment Contracts:
   - IFRS 4: Treatment varied depending on the accounting policy chosen. This could lead to inconsistencies and make separating insurance risk from investment risk challenging.
   - IFRS 17: Requires explicit identification and separate accounting for investment components under IFRS 9, improving transparency and comparability. So, the Investment contract will fall outside the scope of IFRS 17.

B. Unit-linked Contracts:
   - Accounting: Can be treated under IFRS 17 if they meet specific criteria:
     - Significant insurance risk: The contract protects against significant risks beyond investment fluctuations.
     - Explicit allocation of charges: Premium is divided into investment and insurance components.
     - Distinct insurance component: The insurance component can be separately calculated and measured.
   - If meeting criteria: Accounted for under IFRS 17 using the Building Block Approach (BBA) or the Variable Fee Approach (VFA), depending on the specific features.
   - If not meeting criteria: Accounted for under IFRS 9 like other investment contracts.

Q-6: How will CSM impact Financial Reporting under IFRS 17?

Ans.: The Contractual Service Margin (CSM) is a key concept introduced by IFRS 17 for accounting for insurance contracts. It represents the present value of an insurer's expected future profit from providing insurance services under a specific contract. In other words, it reflects the unearned profit embedded within the contract at any given time. CSM is not directly part of capital but influences factors like technical provisions and profitability, indirectly impacting capital adequacy.

Flow in Income Statement and Balance Sheet:

- Initially, CSM is recognized as a liability on the balance sheet. This reflects the insurer's obligation to deliver future services under the contract.
- Overtime, as the insurer provides services and fulfills its obligations, the CSM is gradually released to profit or loss in the income statement. This represents the recognition of earned profit.
- Discounting: The CSM is calculated using a risk-adjusted discount rate, reflecting the time value of money and the uncertainty associated with future cash flows

Q-7: What is Net Finance (Expenses)/Income, and how does it impact the Income statement and comprehensive income?

Ans.: Insurance finance income or expenses is defined as the change in the effect of the time value of money arising from the passage of time and the effect of changes in financial assumptions on the carrying amounts of insurance contracts. This includes interest income, dividend income, and realized gains or losses on investments associated with insurance contracts. IFRS 17 offers an **optional treatment** for recognizing these finance components:

A. Full P&L Recognition:

All net finance income/expense is recognized directly in the **profit or loss**. This approach provides a **more straightforward and more transparent** presentation. However, it can lead to **volatility** in the P&L due to fluctuations in financial markets.

B. Split between P&L and OCI:

This option allows recognizing the **time value of money (TVM)** component of the net finance income/expense in the P&L while recognizing the remaining **non-TVM component** in the OCI. The TVM component reflects the expected return on the investments, aligning with the gradual release of the CSM and potentially reducing volatility in the P&L. The non-TVM component includes realized gains/losses and other items not directly related to the expected return, smoothing out the impact on the P&L. This approach is **more complex** but offers **improved comparability** with companies using the full P&L approach, especially for those with significant investment activities.