Financial KPI in ambito IFRS17 nel mercato Europeo Vita

Milano, Febbraio 2024

Agenda

- Initial considerations
- Key areas affected by IFRS17
- IFRS17 impacts on markets, management and investors
- Financial KPIs and disclosure

Initial considerations

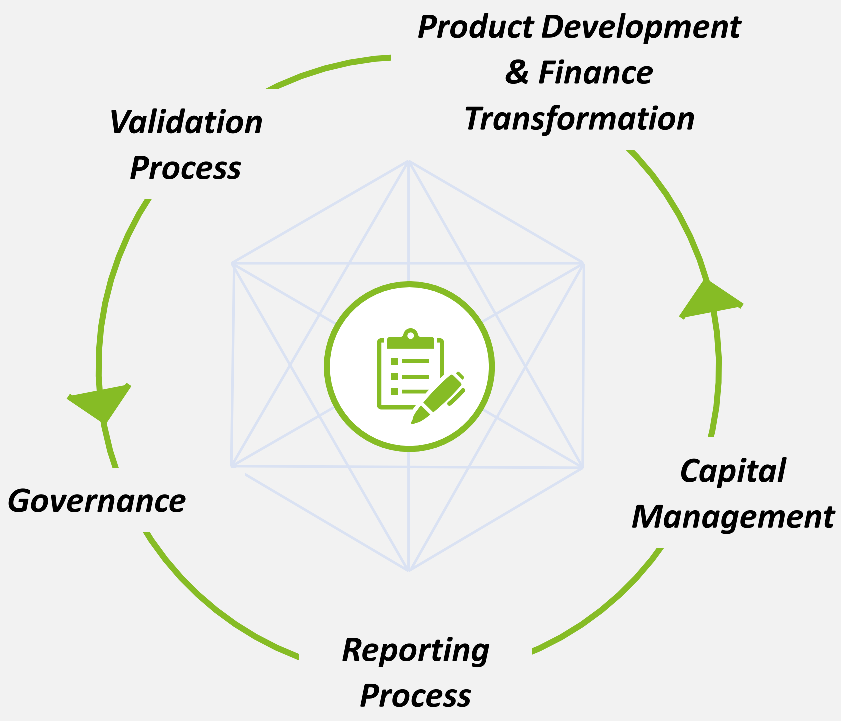
At what stage are we in terms of IFRS17 Standard implementation?

Starting from 2018, within the Integrated Valuation Process, the role of Actuaries has become even more significant and central…

The status of our journey	Is it appropriate to assess the scenario that has unfolded and determine how many of us perceive that the significance and centrality of our role as actuaries has increased
The awareness of the Actuary's role	Has our Actuarial Committee/Movement developed the correct awareness of our role within the new valuation and accounting processes under IFRS 17?
The near-term future	What are the evolving phenomena that actuaries will need to address in the short term?
The medium-term future	What are the medium-term prospects, and what additional processes have been activated?

Market Readiness and Processes impacted

- Role of the Actuarial function
- Governance definition for IFRS17 Reporting, Balance sheet management and validation
- Coordination between Balance sheet managers and Actuaries
- Extend reporting process to bridge IFRS4, Solvency II and IFRS17
- Reporting timelines
- Embed IFRS 9/17 reporting in the current process and improvement of the Insurer's framework to optimize Capital Management
- Support the Budgeting/Planning target operating model design and implementation
- Data management and business intelligence
- Improvement and definition of new KPI set
- Product pricing process review to leverage on the newly available data
- IFRS17 model validation and KPIs audit



Financial KPI in the IFRS17 world

- Solvency II **not only disrupted** insurance **financial reporting** and **risk management** frameworks but also impacted **management decision-making process** and **insurance market evaluation metrics**
- Insurers use **SII KPIs** to define **investment strategies, management actions, cash remittance** and **dividend policy** as well as product development strategy. At the same time, investors and financial analysts consider those KPIs for **financial performance** and **rating assessment**
- **IFRS17 transition** will broaden the external and the internal disclosures and is already impacting a wide range of stakeholders like management, investor relations, policyholders, financial analysts and rating agencies
- IFRS 17 go-live will widen the **available KPIs** to assess insurers' **profitability** and **long-term growth perspective**

Financial KPIs in the IFRS 17 World (kx.deloitte)

Financial KPI in the IFRS17 world *is a paper drafted by a working group of Deloitte actuarial professionals from 8 European Countries.*

Lead Partner:	Netherlands	
Working Group Leader:	Netherlands	
	Ireland	United Kingdom
Working Group Member:	Italy	Portugal
	Cyprus	Spain

The document provides ***an overview about how IFRS17 KPIs will be expected to be integrated in the business decision-making*** *and about the upcoming challenges and opportunities for insurers' management, investors and analysts. The analysis focuses on the* ***main European Countries***

Financial KPIs in the IFRS17 world – Main outcomes

Investors and Management perspectives

1. Which will be the leading reporting metric for analysts and investors?

2. Which are the main KPIs that Management will consider to steer the business?

***North European Countries**, more used to a Market Consistent evaluation of liabilities are expected to still focus on **Solvency-related indicators (as Capital Generation)** for business steering, balance sheet management and investors' narrative at least in the short term*

***Central-South European Countries** that usually do not report a market consistent evaluation **of liabilities under IFRS4**, expected, in the medium term, to take into consideration the available IFRS17 KPIs*

Financial KPIs in the IFRS17 world – Main outcomes

Integration of IFRS17 KPI in the current financial performance indicator frameworks

Performance Management & Pricing

Existing Business
- Value in-Force
- CSM
- Analysis of ExpVar

New Business
- Value of New Business
- Written Premium (Insurance Revenue)
- New Business CSM
- Loss Component

Insurance Service Result
CSM Release | RA Release | Loss Component

Investment

ALM & Hedging
- Market SCR
- Net OCI Position
- Equity
- Asset Return
- Liability Unwinding

Capital Management

Cash Remittance & Dividend Reserve Capacity
- Free Capital
- Distributable Reserve
- Capital Generation

Legend

Non GAAP KPI | Changed under IFRS17 | New under IFRS17

Main Outcomes

- **IFRS17 KPIs to replace VIF/EV and Local GAAP** KPIs for underwriting performance measurement since more granular, less dependent by insurers' accounting choices/EJ and subject to external audit
- **Solvency II KPIs still leading for ALM and Capital Management.** However, **IFRS17 Equity and P&L volatility management** is of interest for financial analysts and an additional challenge for Insurers
- Analysts and investors need **time to get acquainted with IFRS17**. Proper bridging, ex-ante projections and accounting choices disclosures expected at day 1
- **Several finance areas impacted by IFRS17 go-live** as planning & control, product development, actuarial function and balance sheet management

Deep Dive: Performance management (1/2)

The adoption of IFRS 17 is set to replace the Value of In-Force (VIF) and other Embedded Value (EV) or local GAAP KPIs. This change is aimed at enhancing comparability across insurers, enabling a more detailed analysis of experience variance, and ensuring consistent reporting practices.

EV Framework	SII based	IFRS 17
Value-in-Force	PVFP	CSM
Value of New Business	New Business Value	New Business CSM
	New Business Capital	New Business Loss Component

- **IFRS 17** is expected to replace VIF and other EV/local GAAP KPIs since it **improves comparability across insurers**, provides **a deeper granularity** and ensures a **consistent analysis of the experience variance.**
- **Nevertheless,** transition choices make the analysis of CSM a challenge for external reporting users. Equity and Underwriting profit could provide a better picture of In-Force profitability and growth.

- **IFRS 17 New Business CSM** replaces NBV (on Local GAAP and Solvency basis) for New Business profitability. **Disclosure of the Loss Component** is a **major concern** especially for **Central and Southern European countries**.
- Especially in **the UK and Ireland**, the indicator is expected to be **combined** with the **regulatory/required capital** to run liability portfolio.

Challenges and Opportunities for Insurers

- **Optimize the information** coming from IFRS17 reporting granularity to identify P&L attribution at product level
- Combine the information from the different reporting to optimize underwriting strategy and capital management

- The Bridging between Local, IFRS and Solvency reporting and IFRS17 is a key requirement expected by analysts and investors
- Full disclosure of actuarial judgement and accounting policies to gain the trust of the reporting users

Deep dive 1: Performance management (2/2)

Gross written premium

- Even if **Written Premium not required**, it is expected to be **disclosed at least until management**, shareholders and stakeholders get fully acquainted to IFRS17
- KPI can provide a simple volume measure of market share
- It can support the product pricing optimization **trade-off between profit and volumes**

Analysis of EV

- Actual vs Expected analysis can provide **valuable insights** about liability portfolio run-off. Low CSM products can be subject to P&L volatility

Combined ratio

- **Ratios are expected to stay the same** even if the underlying quantities will change
- The **separation of the discounting effect** is of interest for **Investors and Analysts**
- In case reinsurance is accounted under a different model/coverage period, further adjustments are necessary

$$Combined\ Ratio = \frac{Insurance\ Service}{Insurance\ Revenue}$$

$$Expense\ Ratio = \frac{Expense}{Insurance\ Revenue}$$

$$Loss\ Ratio = \frac{Claims}{Insurance\ Revenue}$$

CSM turnover ratio

- CSM turnover ratio is a useful indicator – especially for Life business – since it provides insights about profit turnover
- This indicator can support the comparison across Life and Non Life and across business with different duration

$$CSM\ turnover\ ratio = \frac{CSM\ released_{t1}}{(CSM_{t0} + CSM_{t1})/2}$$