

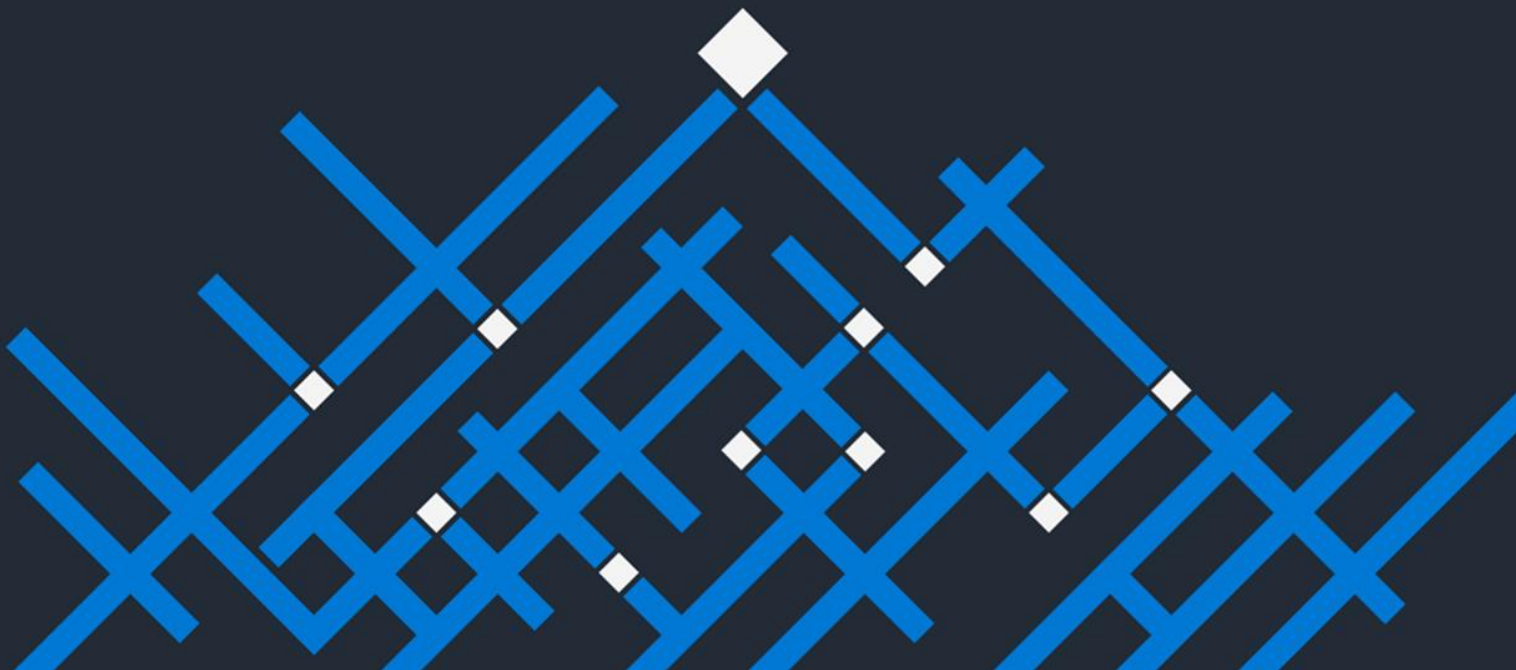
MILLIMAN RESEARCH REPORT

2023 IFRS 17 Disclosure Report: Asia

Summary Report

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Introduction

Globally, International Financial Reporting Standard (IFRS) 17 became effective on 1 January 2023. For some Asian insurance markets such as South Korea, Hong Kong, Singapore and Malaysia, the standard also became effective from the same date. In Mainland China, the same effective date only applies for companies that are listed overseas and have adopted international accounting standards. For Mainland China domestic insurers that are not listed, the effective date is 1 January 2026. The application of IFRS 17 in other markets such as India, Taiwan, Thailand and Indonesia has been deferred.

The IFRS 17 standard requires an assessment of the profitability of insurance contracts when they are first issued and, if positive, recognition of profit over the lifetime of the contracts in a manner that reflects the timing of the insurance services provided by the insurer. Specifically, the main features of the new accounting framework for insurance contracts include:

- A fair value measurement of future expected cash flows, incorporating an explicit risk adjustment. Assumptions used in the projection need to be the current best estimate.
- A contractual service margin (CSM), which represents the unearned profits of the insurance contract to be recognised in profit and loss as service is provided over the coverage period of the insurance contract (any loss is recognised immediately). The CSM is calculated at inception of the contract and then released in a systematic way that best reflects the transfer of services provided under the contract. The CSM cannot be negative, so losses from unprofitable contracts are immediately booked in the profit and loss (P&L) statements.
- Companies are required to identify contracts that are onerous (loss-making) at inception and group them separately from non-onerous contracts. Companies are also required to group contracts written one year apart, although exemptions exist in some jurisdictions due to mutualisation effects across insurance contracts.
- Compared to the previous IFRS 4 framework (called Phase 1, implemented in 2014), the presentation of results in the income statement and balance sheet has changed significantly. In particular, the key drivers of profit are shown in the P&L with the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.

Based on IFRS 17 disclosures of insurance companies, we have produced a report giving a comparative analysis of key aspects of the IFRS 17 methodology and financial results. In particular, the full report aims to provide inputs to the following questions:

- What are the key commonalities and differences in IFRS 17 methodology among the companies considered in the scope of the analysis?
- How does IFRS 17 impact the adjusted equity as at 31 December 2022 and 31 December 2023, and how does this compare against embedded values?
- What is the impact of IFRS 17 on companies' profitability, including IFRS 17 net profit and non-GAAP operating profit metrics?
- What are the key drivers impacting IFRS 17 profitability, how do they compare across companies and how have they evolved over time?
- How does new business value creation look under IFRS 17, and how does this compare against a traditional embedded value new business creation metric as at year-end 2022 and year-end 2023?
- What are the key drivers impacting companies' new business value creation under IFRS 17?

The information contained in the report is based on information publicly disclosed by selected companies as part of their normal disclosure process. Companies included in the analysis are selected global or domestic companies with material business in Asia. For those companies with both life and non-life business, the analysis primarily focuses on their life business. In particular, the following companies have been included:

- **Multinational companies with material insurance business in Asia (Regional companies):** AIA Group Limited (AIA), FWD Group Holdings Limited (FWD), HSBC Life Insurance (HSBC) and Prudential Plc (Prudential), two Canadian multinational insurers—namely Manulife Financial Corporation (Manulife) and Sun Life Financial Inc. (Sun Life)—and one European insurer (AXA).

- **Companies with their main focus on Mainland China (China companies):** China Pacific Life Insurance Co., Ltd (CPIC), New China Life Insurance Co., Ltd (NCI), The People's Insurance Company (Group) of China Limited (PICC), Ping An Life Insurance Company of China, Ltd. (Ping An) and China Taiping Life Insurance (Hong Kong) Company Limited (Taiping)
- **Companies operating either in Singapore or in Malaysia (Singapore and Malaysia companies):** Allianz Life Insurance Malaysia Berhad (Allianz), Maybank Ageas Holdings Berhad (Etiqa), Great Eastern Holdings Limited (Great Eastern) and Hong Leong Assurance Berhad (results based on end of June 2023)

The report aims to provide initial insights into IFRS 17 financials and the impact on life insurance companies, based on publicly available information and our internal assessment. The observations do not attempt to be exhaustive. Approximations have been made in some areas, and the results would differ from those presented in this report should a different approach be used. It is also important to recognise that insurance companies have only recently started communicating on the impact of IFRS 17 on their business and, consequently, the information contained in this report is time-sensitive and could evolve over time.

We have produced an executive summary of the full report, which we are sharing here. If you would like to request a copy of the full report or discuss the IFRS 17 disclosure in any of the markets covered in this report in more detail, please contact one of the Milliman consultants listed at the end of the report.

Executive Summary

We examine IFRS 17 disclosures from selected global and domestic insurance companies with substantial operations in Asia, emphasising the underlying methodologies and key financial results, including base case performance and sensitivity disclosures to various risks. It is important to note that our analysis does not aim to provide an exhaustive list of companies. Instead, we have selected representative companies for this study, acknowledging that methodologies and results for companies outside this scope may vary significantly.

In the methodology section, we conduct a comparative analysis based on the disclosed information across different regions and different companies, covering measurement models, risk adjustments, discount rates, coverage units and transition approaches. Although IFRS 17 is largely principle-based, allowing companies to develop their own internal calculation methodologies based on their interpretations of the standard, certain similarities and differences are evident among the companies. For instance, there is a consistent application of the variable fee approach (VFA) for participating business and unit-linked products across regions, while both the general measurement model (GMM) and VFA are used for universal life contracts. The value at risk (VaR) approach is commonly employed for calculation of risk adjustments, although the confidence intervals vary among companies. The tables below provide a high-level view of the companies selected across the regions. Overall, while there are consistent trends in certain areas, the underlying methodologies exhibit significant diversity, contributing to variations in results among the companies.

EXECUTIVE SUMMARY OF KEY DISCLOSED METHODOLOGY OF SELECTED COMPANIES ACROSS REGIONS

	REGIONAL	CHINA	SINGAPORE AND MALAYSIA
Measurement Model	Largely consistent for key products, with participating and unit-linked under VFA		
Valuation Technique	All use a method similar to typical economic balance sheet calculations		
Risk Adjustment	Primarily use VaR, except for two that use a margin approach	Mainly use VaR except for two companies that use a Cost of Capital (CoC) approach	
Discount Rate	The majority use the bottom-up approach, except for three	All use the bottom-up approach	
Coverage Unit	More information on the insurance services compared to the investment services		
Disaggregation of Insurance Finance Expense	Primarily choose the OCI option for certain business lines, with one exception		
Transition Approach	All three approaches are utilised, but the Modified Retrospective Approach (MRA) is less common among regional companies.		

We have analysed the key results from the IFRS 17 disclosures and compared them to other metrics from supplementary information disclosed by companies, where applicable. The results appear to be region-specific, prompting us to compare key selected financials among companies within each region and conduct a regional comparative analysis, which is summarised in the table below.

Notable differences in asset classification under IFRS 9 are observed for debt and equity securities with the use of fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Adjusted equity, defined as the sum of IFRS 17 shareholders' equity and net of tax CSM, is disclosed by regional companies but not by China companies or Singapore and Malaysia companies. While IFRS 17 net profit remains a crucial metric for all, regional companies also use non-GAAP operating profit measures to provide a more long-term perspective on profitability, excluding short-term market fluctuations.

In terms of new business value creation, our analysis of new business CSM (NB CSM) versus traditional embedded value metrics such as value of new business (VNB) indicates no consistent trend among companies or within one geography, as they are driven by valuation basis differences that may vary significantly across different companies or regions.

Our sensitivity analysis indicates that all companies within the scope disclose the impacts of insurance and market risks on P&L and shareholders' equity. However, only regional companies also report the impacts on the CSM. Among insurance risks, the companies in scope are most sensitive to mortality and morbidity risks, with varying degrees of impact from lapse and expense risks. Regarding market risks, the effects on equity or P&L due to interest rate and equity price fluctuations differ. Additionally, we observe that the P&L impact from market risks can be mitigated by using the other comprehensive income (OCI) option for both assets and liabilities.

EXECUTIVE SUMMARY OF KEY DISCLOSED RESULTS AS AT YEAR-END 2023 OF SELECTED COMPANIES ACROSS REGIONS

	REGIONAL	CHINA	SINGAPORE AND MALAYSIA
Asset classification	Debt	Mainly FVOCI	Mix of FVOCI and FVTPL
	Equity	Mainly FVTPL	Mix of FVOCI and FVTPL
Nonattributable expense to total expense	10% to 50%	30% to 40%	Less than 20%
Adjusted equity[^] to embedded value	83% to 122%	108% to 141%	86%
Profitability	Stable net profit except two. Non-GAAP performance metrics also are disclosed.	Relatively stable net profit.	Less stable net profit.
New business CSM to VNB	75% to 176%	107% to 426%	74% to 137%
Implied CSM release rate[^]	8% - 11%	7% -10%	9% to 13%
Discount rate (implied illiquidity premium)	USD:60bps to 100bps HKD:50bps to 100bps CNY: 20bps to 50bps	Not disclosed	USD: 55bps to 100bps SGD: 80bps to 140bps MYR: 20bps to 75bps
Sensitivities	Insurance	Most sensitive to mortality and morbidity risks	
	Market	Company-specific and highly affected by risk management practices	

[^] Gross of tax CSM is used for the adjusted equity for China companies and Singapore and Malaysia companies because they do not disclose net of tax CSM. Implied CSM release rate is defined as CSM release / (NB CSM + Gross CSM BOP).

We hope you find this information useful and would welcome feedback or a conversation about the topics above, and how they may align with your business objectives.



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