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Comparative analysis of the Achmea, a.s.r., Athora, and NN life insurance companies

Our key observations of the 2024 annual reports

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In the evolving landscape of financial reporting, the recent adoption of IFRS 9 and IFRS 17 has brought significant changes to how insurance companies report their financial performance. In this paper, we provide a comparative analysis of the life insurance divisions of Achmea, a.s.r. (ASR), Athora (SRLEV), and NN Group (NN Leven), focusing on their 2024 annual reports. For NN Leven and SRLEV separate annual reports were available, while for Achmea and ASR the results of the life business are part of the consolidated group report.

This marks the second year these companies have reported under the new standards, offering an opportunity to observe the development of their financial statements and key performance metrics.

Milliman has created a database containing the financial results of over 60 international financial institutions, concentrating on insurance activities and the valuation of (re)insurance contracts under IFRS 17. A quantitative analysis of the annual reports from this group is scheduled for May 2025.

Our analysis delves into balance sheet (BS) components of shareholder equity, revaluations, contractual service margin (CSM), and risk adjustment (RA), which collectively shape the perceived value of these companies. We explore the dynamics of these components and their implications for future financial performance, highlighting the changes in 2024.

We also examine key performance indicators such as CSM growth and new business CSM, providing insights into the profitability and sustainability of new business.

Furthermore, we address the challenges and opportunities presented by non-attributable expenses, investment returns, and CSM release, all of which are significant in shaping the bottom line. Additionally, we consider the implications of discount rate selection under IFRS 17 and the convergence of reporting practices, emphasizing the need for greater harmonization to enhance comparability and analysis.

Through this comprehensive analysis, we aim to provide valuable insights for stakeholders and analysts seeking to understand the evolving dynamics of the life insurance industry under the new reporting standards.

BALANCE SHEET INFORMATION

The balance sheet provides insight into a company's value, encompassing shareholder equity, revaluations, CSM, and RA. The latter three components can be viewed as "stranded equity" because they are not readily accessible. Over time, revaluations and RA contribute to the company's results and are integral to its value. Similarly, CSM will impact results unless future best estimate assumptions worsen, leading to higher cash outflows or reduced margins. Table 1 presents the development of these components.

The data indicate that three companies experienced growth in total revaluations, CSM, and RA. Notably, NN Leven underwent a significant shift between RA and CSM, with a substantial portion of RA being released and subsequently added to CSM as it is related to future service. A higher CSM is beneficial as it can absorb future adjustments in the best estimate (BE) and RA. As long as CSM remains positive, changes in assumptions related to future cash flows can be absorbed. SRLEV recorded the largest total increase. For Achmea the situation is slightly different, because both the CSM and RA reduced in 2024.

FIGURE 1 : REVALUATIONS, CSM, AND RA

€ MLN	2023				2024				DEVELOPMENT			
	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)
Revaluations (Net) Liability on BS *	8.612	342	-		8.606	390	-		-	+14%		
CSM	3.767	4.932	1.889	1.076	4.464	5.382	2.008	1.027	+19%	+9%	+6%	-5%
RA	991	2.623	899	720	544	2.524	953	696	−45%	−4%	+6%	-3%
Total amount of stranded equity	13.370	7.897	2.788	1.796	13.614	8.296	2.961	1.723	+2%	+5%	+6%	-4%
Solvency II (SII) life underwriting (UW) risk**	2.652	2.963	1.022	1.329	2.593	2.873	1.050	1.325	−2%	−3%	-	-
Present value future cash flows (PVFCF)	100.408	84.601	39.193	33.164	103.942	86.914	41.212	32.530	+4%	+3%	+5%	-2%
CSM/PVFCF	3,8%	5,8%	4,8%	3,2%	4,3%	6,2%	4,9%	3,1%				
CSM/Life UW risk	142%	166%	185%	81%	172%	187%	191%	78%				
RA/PVFCF	1,0%	3,1%	2,3%	2,2%	0,5%	2,9%	2,3%	2,1%				

* The revaluations are related to investments (excluding strategic holdings of equity) and insurance liabilities.

** ASR's SII life underwriting risk is the sum of ASR Leven and Aegon Leven. Aegon Leven and NN Leven use an internal model while ASR Leven and SRLEV apply the standard formula.

For NN, ASR and SRLEV, the ratio of CSM to the present value of future cash flows (PVFCF) rose from 2023 to 2024. The ratio of CSM and solvency capital requirement (SCR) for life underwriting risks increased for these three companies. The SCR for life underwriting risks can be used as an indicator for changes in the BE, which are equal to SII calibrated scenarios. The ratio of RA to PVFCF varied significantly among the companies, with NN Leven having the lowest relative RA, resulting in a relatively smaller future stream of results compared to its peers. The ratio of CSM to the PVFCF had a minimal decrease in 2024. The ratio of the CSM and the SCR for life underwriting risk deviates significantly from the other companies. The ratio was around 80% in 2023 and 2024 which indicates that Achmea is more vulnerable for depletion of the CSM.

Regarding RA, it is relevant to note that:

1. NN Leven and SRLEV use a cost-of-capital rate (CoC-rate) of 4%, Achmea uses a CoC rate of 4,5% and ASR a CoC-rate of 6%.
2. NN Leven quantifies risk using an internal model. Changes in the model and assumptions lead to the reduction of RA. Furthermore, a new longevity reinsurance contract further reduces NN Leven's RA.

NN Leven is the only company that applies the fair value through the other comprehensive income (OCI) option for investments and insurance liabilities. This approach means that changes in the value of investments and insurance liabilities, driven by developments in financial risk, are reflected in revaluations rather than in the immediate financial result. A liability position of the revaluations will potentially have a positive effect on the results over time; however, it is dependent on changes in future financial parameters.

PERFORMANCE

Commonly, two key performance indicators are used to interpret the change in CSM:

1. CSM growth is the change in CSM due to recognition of new business and CSM being released into the result. The presented growth excludes the effects of interest accretion and changes in BE and RA related to future service. Positive CSM growth indicates more inflow of CSM than release, thereby stabilizing future results in a going concern situation.
2. New business CSM, which is CSM generated out of recognition of new business, can be expressed as ratio of the present value of the premiums. It is a measure of the profitability of new business.

Despite the increase of CSM for all companies presented in Figure 2, the presented “CSM growth” is negative. This means changes in parameters, interest accretion, and portfolio development generated the increase in CSM. The CSM of the new business itself is not sufficient to stabilize the level of the CSM of the entire portfolio, confirming the decreasing trend of the Dutch life insurance market.

The margin on the new business improved for NN Leven and SRLEV together with a growth of volume. ASR is slightly behind in both volume and CSM generation. There are differences in the ratios of RA and acquisition expenses relative to the PV of future cash inflows. The differences in RA can be attributed to the type of new business written and the methodology, which has been discussed earlier in this paper. Achmea is in run off and didn't report the detailed new business figures because those are considered not to be material. This will change in 2025 when Achmea re-enters the pension market after reaching a strategic partnership with Lifetri and Sixth Street.

CSM release in ASR's results has increased significantly. This increase is evident in the General Measurement Model (GMM) and Variable Fee Approach (VFA) portfolios and exceeds the expected release amount of 277, as stated in the 2023 annual report. Similarly, NN Leven and SRLEV released higher amounts than anticipated in their 2023 annual reports.

Not all expenses are directly linked to insurance activities and are therefore not included in the BE. This results in a separate line for non-attributable expenses in the financial results. Attributable expenses are included in the BE and largely cover the actual expenses related to insurance activities. Non-attributable expenses need to be funded from other sources. Typically, the largest contribution to financial results comes from investment returns. Table 3 provides an overview of the main sources of revenue and the non-attributable expenses.

FIGURE 2 : "CSM GROWTH" AND CSM NEW BUSINESS

€ MLN	2023				2024				DEVELOPMENT			
	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)
New business CSM	118	76	62	12	184	31	134	14	+56%	−59%	+116%	+17%
CSM released in P&L	−256	−210	−174	-61	−298	−313	−176	-58	+16%	+49%	+1%	-5%
"CSM growth" due to new business and release	−138	−134	−112	-49	−114	−282	−42	-44	−17%	+110%	−62%	-10%
"CSM growth"/ CSM EOY	−3,7%	−2,7%	−5,9%	-4,6%	−2,6%	−5,2%	−2,1%	-4,3%				
PV future cash inflow newbusiness	2.409	588	1.394	NA	3.328	745	2.798	NA				
CSM new business/ PV FCF	4,9%	12,9%	4,4%	NA	5,5%	4,2%	4,8%	NA				
RA new business/ PV FCF	0,8%	5,2%	1,6%	NA	1,2%	4,3%	3,0%	NA				
Acquisition exp/ PV FCF	3,4%	1,9%	0,6%	NA	2,6%	2,8%	0,5%	NA				

FIGURE 3 : MAIN COMPONENTS OF THE RESULTS

€ MLN	2023				2024				DEVELOPMENT			
	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE)
Insurance service result	191	320	163	14	246	491	181	126	+23%	+53%	+37%	+900%
Non-attributable expenses*	−524	−438	−130	-2	−127	−126	−39					
Investment result (1)	5.759	6.095	3.668	826	6.458	6.372	3.116	970	+12%	+5%	−15%	+17%
Insurance finance income and expense (2)	−4.623	−5.173	−2.507	-625	−5.580	−5.751	−2.629	-725	-21%	-11%	-5%	-16%
(1) + (2)	1.136	922	1.161	201	878	620	487	245				
Net result**	628	731	881	235	856	846	508	742				

* Strengthening the provision for policyholder compensation impacted the non-attributable expenses in 2023. If the 2023 amounts are corrected for that effect, the amounts are 164 (NN Leven), 138 (ASR), and 26 (SRLEV).

** The net result contains other revenue (e.g., fees or other activities), expenses, and tax. Those are not presented separately in Figure 3 but are part of the net result.

EXPERIENCE VARIANCE AND RATIO FOR NON-ATTRIBUTABLE EXPENSES VERSUS TOTAL EXPENSES

The net result is largely driven by the investment and finance results, which is necessary to cover expenses not attributed to insurance contracts. The insurance service result is primarily influenced by CSM and RA release as well as the variance between expected and actual cash flows. This variance is relatively small for NN Leven and SRLEV but more significant for ASR. Table 4 shows the ratios of expected to actual cash flows. A percentage below 100% indicates that cash flows from BE are lower than the actual cash flows. Consistently having percentages deviating from 100% may suggest that the BE requires further scrutiny.

FIGURE 4 : EXPECTED VERSUS ACTUAL CASH FLOW

	2023				2024			
	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE	NN LEVEN	ASR (SEGMENT LIFE)	SRLEV	ACHMEA (SEGMENT LIFE
Expected/ actual cash flow	98%	92%	101%	94%	100%	94%	102%	103%

The amount of non-attributable expenses should be considered in relation to the total expenses (excluding the effect of the provision). For NN Leven and ASR, the percentages of non-attributable expenses are around 30% of the total expenses. For SRLEV, the percentage is below 20%. The amount of non-attributable expenses for Achmea is very low compared to the other companies.

CSM RELEASE

The annual reports contain an overview of expected CSM releases. Table 5 shows the percentages of CSM per end of year and when those are released into the result. The percentages are without the effect of interest accretion over time.

FIGURE 5 : RESULTS OF CSM RELEASE

CSM MATURITY PERCENTAGES OF THE TOTAL CSM	2023				2024			
	NN LEVEN	ASR	SRLEV	ACHMEA	NN LEVEN	ASR	SRLEV	ACHMEA
< 1 year	7%	6%	7%	6%	5%	5%	7%	5%
1–5 years	22%	20%	24%	17%	17%	19%	23%	17%
5–10 years	18%	20%	22%		14%	19%	21%	
> 10 years	53%	54%	47%		64%	57%	50%	
'> 5 years				77%				78%

Achmea uses different time intervals which leads to a different segmentation.

NN Leven shows a significant shift of the pattern and CSM release pushed into the future. This means NN Leven will have a larger CSM for a longer time to absorb future adverse adjustments to the parameters. For all companies, more CSM was released in 2024 than expected in the 2023 report. This can be caused by new business, interest accretion, and favorable changes in BE and RA related to future changes. All these factors increase CSM and have a positive impact on the release.

LOSS COMPONENT

The loss component's size is important for realizing future profits. Loss components arise when there are adjustments in BE and RA related to future services, but CSM cannot absorb these changes. Historically, these were recorded in the financial results. If there is a favorable change in BE and/or RA for contracts with a loss component, this positive change will first appear in the results up to the amount of the loss component. Conversely, if there are adverse changes in BE and/or RA for such contracts, the losses will immediately be reflected in the results. ASR has a relatively higher loss component than the other companies. Table 6 shows that all companies had an increase in the loss component in 2024.

FIGURE 6 : LOSS COMPONENT

€ MLN	2023				2024			
	NN LEVEN	ASR	SRLEV	ACHMEA	NN LEVEN	ASR	SRLEV	ACHMEA
Loss component (YE)	109	295	63	55	150	266	98	97
Change in loss component during the year due to								
▪ Incurred claims and benefits	-	−37	−6	-15	-	−27	−7	-8
▪ Losses and reversals of already onerous contracts	66	25	32	30	40	−3	41	45
▪ Finance expenses and other	-	−5	-	-3	1	1	1	1

DISCOUNT RATES

While SII imposes strict guidelines on the discount rates used for valuing insurance liabilities, IFRS 17 is principle-based and does not specify the discount rates. Companies have disclosed their chosen discount rates in their reports, but different segmentation approaches make direct comparisons challenging. SRLEV utilizes both liquid and illiquid curves, ASR distinguishes between a 50% and 100% illiquidity premium, and NN Leven presents curves based on each measurement model. Table 7 shows that the most effective comparison can be made using curves with a full illiquidity premium, such as NN Leven's GMM.

FIGURE 7 : ROUNDED DISCOUNT RATE WITH A FULL ILP, ILLIQUID CURVE, OR GMM

ROUNDED PERCENTAGES PER TENOR (100% ILP, ILLIQUID CURVE OR GMM)	2023				2024			
	NN LEVEN	ASR	SRLEV	ACHMEA	NN LEVEN	ASR	SRLEV	ACHMEA
1 year	4,1	4,2	4,6	3,8	3,2	3,2	3,5	3
5 years	3,1	3,2	3,6	2,8	3,1	3,1	3,4	2,9
10 years	3,2	3,2	3,6	2,8	3,2	3,3	3,6	2,9
20 years	3,2	3,3	3,7	2,8	3,2	3,3	3,6	2,8
30 years	2,9	3,2	3,5	2,5	2,9	3,1	3,4	2,4
LLP years	30	20	30	30	30	20	30	30
LTFR	3,2	3,4	2	2,4	3,2	3,3	2	2,3

As observed, there are notable differences between the discount rates of NN Leven and ASR compared to SRLEV. A greater illiquidity premium is the main reason for SRLEV's discount rate being higher. While SRLEV uses a higher discount rate for the liquid portion of the curve, it applies a significantly lower long-term forward rate (LTFR). These variations in discount rates complicate result comparisons. The sensitivities offered do not provide enough information to establish a consistent valuation basis.

CONVERGENCE OF REPORTS

There is increasing alignment among companies in the detail and structure of their annual reports. However, several differences remain, and further streamlining would benefit analysts. Notable differences include:

- Aggregating the presentation of insurance liabilities movement. ASR presents VFA and GMM separately, whereas other companies provide aggregated figures.
- Variations in data points for CSM release, with companies using different time steps.
- Differences in the time steps and presentation of discount rates.
- Variability in the level of detail for presenting insurance income and insurance expenses, with NN Leven offering a more detailed breakdown.
- Sensitivities mainly focus on changes in the SCR ratio, whereas sensitivities of CSM and results would be beneficial.
- Differences in presented sensitivities, such as using a base case sensitivity with the SII curve, would facilitate easier comparison between companies.

Further harmonization in disclosures would enhance understanding and improve the quality of analysis by financial analysts. Establishing joint principles on these points would contribute to better comparability of results across companies.

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