MILLIMAN WHITE PAPER

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

Our key observations of the 2024 annual reports

Sjoerd Brethouwer, AAG
Joyce Delsing, AAG
Henny Verheugen, AAG

In the evolving landscape of financial reporting, the recent adoption of IFRS 9 and IFRS 17 has prompted significant changes to how insurance companies report their financial performance. In this paper, we provide a comparative analysis of the non-life insurance divisions of Achmea, a.s.r. (ASR), and NN Schade (NN), focusing on their 2024 annual reports. Separate annual reports for the non-life entities are available for Achmea and NN, while the results of the non-life business is part of the consolidated group report for ASR. In addition, we include information from the Solvency and Financial Conditions Reports (SFCR) of the non-life entities.

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 more than 50 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 June 2025.

Our analysis delves into balance sheet (BS) components of shareholder equity, revaluations, contractual service margins (CSMs), and risk adjustments (RAs), 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.

A significant difference with life insurance companies is that a large part of the insurance liabilities is accounted for using the premium allocation approach (PAA). For these insurance liabilities, the CSM is not explicitly available, as it is an implicit part of the liability. For the majority of the disability portfolios, which are insured by non-life insurance companies in the Netherlands, the General Measurement Model (GMM) is applied.

We also examine key performance indicators such as CSM growth and new business CSM, providing insights into the profitability and sustainability of new business. The combined ratio is the most used metric for assessing the performance of non-life insurance companies. It represents the sum of the claims ratio and the expense ratio.

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 non-life insurance industry under the new reporting standards.

BS INFORMATION

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

FIGURE 1: REVALUATIONS, CSM, AND RA

	2024			2023		
€ MLN	**ACHMEA**	**ASR**	**NN**	**ACHMEA**	**ASR**	**NN**
Revaluations (net) liability on BS *	-	-	134	-	-	138
CSM	109	293	518	153	236	495
RA	81	217	147	76	223	130
Total amount of stranded equity	190	510	799	229	459	763
IFRS 17 present value of future cash flows (PVFCF)[1] for contracts accounted with GMM (1)	936	5.271	3.236	807	4.942	3.165
IFRS 17 insurance liability for contracts accounted for with PAA (2)	5.081	1.992	2.395	4.594	1.802	2.378
Sum (1) and (2)	6.017	7.263	5.631	5.401	6.744	5.543
Solvency II health underwriting (UW) risk (diversified)	566	1.503	1.295	508	1.436	1.010
CSM/PVFCF (GMM)	16%	6%	16%	19%	5%	16%
CSM/non-life UW risk	19%	19%	40%	30%	16%	49%
RA/PVFCF (GMM)	5%	4%	5%	9%	5%	4%

* The revaluation of NN is related to investments (excluding strategic holdings of equity) and insurance liabilities.

ASR and NN apply GMM for their group and individual disability contracts. Achmea applies GMM for the individual disability contracts, but PAA for the group disability contracts. All three parties apply PAA for their P&C business.

For NN and ASR, the ratio of CSM to the estimate of the present value of future cash flows (PVFCF) remained rather stable from 2023 to 2024. Achmea shows a decrease, which is predominantly caused by the decrease of the CSM in 2024 related to strengthening of the PVFCF (€31 million).

1. Estimate of the present value of future cash flows or PVFCF is also called “best estimate.”

The ratio of CSM and Solvency Capital Requirement (SCR) for health underwriting risks is a rough indicator of how quickly the CSM can be depleted due to adjustments in nonfinancial parameters that impact the PVFCF. The SCR increased for all three companies in scope. Compared to the life companies, the ratios are low, which indicates that there is a relatively high probability of depletion of the CSM in the future. The ratios of CSM to SCR for Achmea and ASR are comparable, but the ratios are very low. The ratio for NN is higher despite the increase of the SCR in 2024.

The ratios of the RA and the PVFCF are comparable for the three companies in scope. The ratio of Achmea decreased over 2024 due to the increase in PVFCF. Regarding RA, it is relevant to note that:

1. NN uses a cost-of-capital (COC) rate of 4%, Achmea uses a rate of 4.5%, and ASR uses a rate of 6%. ASR adds diversification effects for disability, taking into account a going concern basis.
2. Achmea and NN quantify risk using an internal model.

NN is the only company that applies the fair value approach 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 depends on changes in future financial parameters.

COMPARISON IFRS 17 AND SOLVENCY II

Figure 2 includes an overview of BS information from IFRS 17 and Solvency II. There are several differences between the values of the insurance liabilities on the two balance sheets.

The PVFCF can be compared with the Solvency II best estimate, but there are some notable differences that cause differences in outcomes.

- The discount rates are different. This mostly impacts the value of the disability contracts.
- The attribution of expenses is different. Under IFRS 17, not all expenses are attributed to the insurance liabilities.

The CSM is an indicator for future profitability in the insurance liabilities. For Solvency II, the expected profits in future premiums (EPIFP) are reported. The two components are quite different from each other. The main differences are:

- The EPIFP is determined for all contracts, while the CSM is only determined for the GMM contracts.
- The CSM is an accumulation of the CSM from prior periods and changes since inception or transition. The majority of the CSM at transition was determined with the fair value approach. The CSM at transition was relatively small for ASR. The EPIFP is forward looking.
- The CSM is accrued at the locked-in rate, while the EPIFP is based on the Solvency II discount rate per year-end 2024.

The IFRS 17 RA is significantly lower than the Solvency II risk margin for the three companies. An important cause is that the RA of the liability for remaining coverage of the PAA contracts is not presented separately, while it is presented separately for Solvency II. The COC percentages are lower in IFRS 17, the drivers can be different, and different diversification effects are included. Solvency II leaves less room for the view of the entity and the compensation in the premium the entity asks for taking over the uncertainty.

FIGURE 2: COMPARISON IFRS 17 AND SOLVENCY II

€ MLN	2024			2023		
	ACHMEA	ASR	NN	ACHMEA	ASR	NN
IFRS 17 PVFCF for contracts accounted with GMM (1)	936	5.271	3.236	807	4.942	3.165
IFRS 17 insurance liability for contracts accounted for with PAA (2)	5.081	1.992	2.395	4.594	1.802	2.378
Sum (1) and (2)	6.017	7.263	5.631	5.401	6.744	5.543
Solvency II best estimate	5.511	7.361	5.411	5.177	6.902	5.289
IFRS 17 CSM	109	293	518	153	236	495
Solvency II EPIFP	547	727	847	258	676	486
IFRS 17 RA	81	217	147	76	223	130
Solvency II risk margin	304	698	598	258	676	486
Non-life excluding Health	140	108	66	112	105	95
Health NSLT	5	45	8	5	45	11
Health SLT	160	545	524	141	526	380

PERFORMANCE

Commonly, three key performance indicators are used.

1. Combined ratio: the most used indicator for business accounted for with the PAA. The combined ratio is determined as (claims + attributable expenses)/premiums or insurance revenue. For the PAA part, the premiums include the CSM and RA for the coverage before the occurrence of claims. For the GMM part, the insurance revenue includes the release of the CSM and RA.
2. CSM growth: the change in CSM due to recognition of new business and the CSM being released into the result. The presented growth excludes the effects of interest accretion and changes in Best Estimate (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.
3. New business CSM: CSM generated out of recognition of new business that can be expressed as a ratio of the present value of the premiums. It is a measure of the profitability of new business.

FIGURE 3: COMBINED RATIOS

	2024			2023		
	ACHMEA	ASR	NN	ACHMEA	ASR	NN
P&C	-	90.7%	93.1%	-	93.6%	92.0%
Disability	-	93.0%	96.0%	-	93.5%	95.2%
Total	95.6%	91.9%	94.0%	94.5%	93.5%	93.0%
Claims	72.1%	66.5%	65.8%	70.4%	66.7%	64.8%
Expenses and commissions	23.5%	25.4%	28.2%	24.1%	26.9%	28.1%
Total	95.6%	91.9%	94.0%	94.5%	93.5%	93.0%

The combined ratio of ASR improved for both the P&C and disability portfolio. The biggest relative gain was realized by the improvement of the expense and commission ratios. ASR does not include non-attributable expenses in the expense ratio and combined ratio, whereas NN does include these expenses in the ratios. This is unclear for Achmea. Despite a reduction in the non-attributable expenses (see Figure 5), the combined ratio for NN increased.

The combined ratios of Achmea and NN increased due to unfavorable developments in the claims.
For disability contracts accounted for by the GMM, two different approaches are applied in the market. For this business, the Liability for Remaining Coverage (LRC) can be used for the whole liability, while there is also an option to apply the Liability Incurred Claims (LIC) for the claims period. This decision has an impact on the coverage units and the speed of release of the CSM into revenue. If the LRC option is used, the CSM is released over a long duration (until retirement) while, for the LRC/LIC combination, the majority of the CSM is released over the contract term, which is shorter for group disability business. This impacts the combined ratio.

FIGURE 4: CSM GROWTH AND CSM NEW BUSINESS

	2024			2023		
€ MLN	ACHMEA	ASR	NN	ACHMEA	ASR	NN
New business CSM	-	101	82	11	96	147
CSM released in P&L	13	148	62	18	70	55
CSM growth due to new business and release	-13	-47	20	-7	26	92
CSM growth/CSM EOY	-12%	-16%	4%	-5%	11%	19%
PV future cash inflow new business	NA	1.555	740	NA	2.724	782
CSM new business/PVFCF	NA	7%	11%	NA	4%	19%
RA new business/PVFCF	NA	2%	2%	NA	3%	2%
Acquisition exp/ PVFCF	NA	2%	1%	NA	1%	0%

Despite the increase of CSM for ASR presented in Figure 4, the presented “CSM growth” of ASR is negative. This negative growth is mainly offset by a positive impact from changes in parameters of €93 million.

The volumes of the new business of ASR and NN under the GMM decreased in 2024. The ratio CSM/PV cash inflow improved for ASR while it decreased for NN. The RA and acquisition expenses developed in line with the volumes of new business, which implies that the change in profitability is related to the cost price of the products. This can be caused by a change in new business mix. Due to the immaterial amounts, Achmea did not disclose the detailed information about the recognized new business as required by IFRS 17 paragraph 107 and 108.

CSM release in ASR's results has increased significantly and exceeds the expected release amount of €51 million, as stated in the maturity analysis in the 2023 annual report. The maturity analysis in the 2024 annual report shows an approximate release of €51 million in 2025.

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 by other sources. Typically, the largest contribution to financial results comes from investment returns. Figure 5 provides an overview of the main sources of revenue and the non-attributable expenses.

FIGURE 5: MAIN COMPONENTS OF THE IFRS RESULTS

	2024			2023		
€ MLN	**ACHMEA**	**ASR**	**NN**	**ACHMEA**	**ASR**	**NN**
Insurance service result	180	324	311	215	135	355
Non-attributable expenses	-10	-51	-110	-3	-58	-122
Investment result (1)	370	689	204	370	582	188
Insurance finance income and expense (2)	-146	-496	-102	-207	-397	-76
(1) + (2) *	224	192	102	163	184	112
Net result**	293	364	221	272	205	251

* The investment result and insurance finance income and expense for Achmea and ASR are based on FVTPL accounting. For NN, a significant part is based on FVOCI accounting.
** The net result contains other revenue (e.g., fees or other activities), expenses, and tax. Those are not presented separately in Figure 4 but are part of the net result.

CSM RELEASE

The annual reports contain an overview of expected CSM releases. Figure 6 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 6: RESULTS OF CSM MATURITY

	2024			2023		
	ACHMEA	ASR	NN	ACHMEA	ASR	NN
< 1 year	11%	15%	11%	11%	22%	11%
1–5 years	33%	30%	32%	33%	27%	32%
5–10 years	-	32%	21%	-	27%	21%
> 10 years	-	23%	37%	-	25%	36%
> 5 years	56%	-	-	56%	-	-

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

The CSM maturities of Achmea and NN did not change much during 2024. ASR shows a slight shift in the maturities to the one- to 10-year bucket. This means ASR will have a larger CSM for a longer time to absorb future adverse adjustments to the parameters. The LRC approach for the disability portfolios applied by NN leads to the largest relative CSM with a maturity of more than 10 years.

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. Achmea has a relatively higher loss component than the other companies.

FIGURE 7: IFRS 17 LOSS COMPONENT

	2024			2023		
€ MLN	ACHMEA	ASR	NN	ACHMEA	ASR	NN
Loss component (YE)	46	23	5	13	29	7
Change in loss component during the year due to	-	-	-	-	-	-
Incurred claims and benefits	-	-28	-	-	-31	-
Losses and reversals of already onerous contracts	33	22	2	-15	31	
Finance expenses and other	-	1	-	-	-	-

DISCOUNT RATES

While Solvency II 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. Figure 8 shows the comparison of the curves with a full illiquidity premium (ILP) or the upper boundary of the presented bandwidth.

FIGURE 8: IFRS 17 ROUNDED DISCOUNT RATE WITH A FULL ILP, ILLIQUID CURVE, OR GMM

ROUNDED PERCENTAGES PER TENOR (100% ILP, ILLIQUID CURVE OR GMM)	2024			2023		
	ACHMEA	ASR	NN	ACHMEA	ASR	NN
1 year	3,01	3,23	2,95	4,18	4,21	3,98
5 years	2,92	3,13	2,85	2,70	3,17	2,95
10 years	2,94	3,26	2.97	2,73	3,24	3,01
20 years	2,76	3,25	2,96	2,69	3,25	3,02
30 years		3,12	2,71		3,17	2,80

As observed, there are notable differences between the discount rates. This is likely caused by the illiquidity premium per duration. It is difficult to determine the impact of these differences on the different components of the balance sheet and income statement. The discount rates of ASR and NN remained relatively unchanged. The discount rates of Achmea increased during 2024, which is probably caused by a slight change in asset mix (more corporate bonds and less government bonds). The discount rate of ASR is higher than the discount rates of Achmea and NN. The additional spread can’t be explained from the mix in assets per entity. Figure 9 is an overview of the asset mixes of a subset of assets. Due to the spreads on corporate bonds, collective investment undertakings (CIUs), mortgages and loans are most relevant for the determination of the illiquidity premium. ASR doesn’t have a higher percentage of illiquid or less liquid assets compared to Achmea and NN.

FIGURE 9: ASSET MIX RELEVANT ASSETS FROM QRT (RELATIVE PERCENTAGES OF A PART OF THE BALANCE SHEET)

	2024			2023		
	ACHMEA	ASR	NN	ACHMEA	ASR	NN
Equity	3%	6%	3%	2%	6%	4%
Government bonds	21%	22%	15%	30%	29%	15%
Corporate bonds	44%	18%	35%	39%	22%	35%
Other bonds	0%	1%	1%	0%	1%	3%
CIUs	7%	34%	16%	7%	27%	13%
Mortgages and loans	18%	17%	27%	17%	12%	28%
Corporate bonds + CIUs + Mortgages and loans	69%	70%	79%	63%	61%	77%

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 points include:

- 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 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 Solvency II 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.

CONTACT

Sjoerd Brethouwer
sjoerd.brethouwer@milliman.com

Joyce Delsing
joyce.delsing@milliman.com

Henny Verheugen
henny.verheugen@milliman.com

Milliman