GLOBAL INSURANCE MARKET INSIGHTS 2021

Getting ready for the transformation

September 2021

pwc

Foreword

The introduction of the accounting standards IFRS 17 Insurance Contracts and the end of IFRS 9 Financial Instruments temporary exemption for insurers will significantly impact insurers' financial statements and consolidated disclosures once they come into effect from 1 January 2023.

In combination with the challenges of market volatility brought about by the Covid-19 pandemic, this means many insurance companies should consider now revaluate their current key performance indices (KPIs), product lines and come up with a sustainable business model (e.g. ESG) to guide themselves towards a successful future.

Table of contents

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich-Ebert-Anlage 35-37
60327 Frankfurt am Main
www.pwc.de

Christoph Schellhas
Partner
Risk & Regulation

Carsten Horst
Partner
Actuarial Services

Dear Readers,

For many decades, the focus of management and oversight processes at insurance companies has been centred on financial KPIs. However, this approach no longer meets today's requirements due to the external and internal challenges that are increasingly being faced. Furthermore, the implementation of IFRS 9 and IFRS 17 and the increasing importance of ESG criteria have forced the insurance industry to adopt agile management approaches. The inclusion of innovative non-financial KPIs may present a solution to these rapid changes.

In cooperation with the Technical University of Munich, a market study was conducted based on 24 insurance companies – five German insurance companies, eight insurance companies with subsidiaries or branch offices in Germany, and eleven international insurance companies worldwide with gross written premiums in a total of € 582,8 billion. The results tie in with last year's market study "Agile Steuerung" and provide us with further information and recommendations regarding KPI integration as well as management and oversight approaches.

The study demonstrates how most insurance companies have remained focused on financial KPIs such as consolidated adjusted operating profit, return on equity (RoE), and gross written premiums. Some non-financial KPIs have already become established within the market and continuously developed to meet emerging ESG situations. In the future, both financial and non-financial KPIs will need to be adjusted while also addressing internal and external challenges such as the long-term consequences of Covid-19, the ongoing low-interest market environment, digitalisation, and climate change. When applying IFRS 17, insurers need to change the focus from gross written premiums to insurance revenue. Furthermore, intensified ESG integration is vital for maintaining a good reputation and ensuring success in the long term.

Based on the study, we continue to see a need for agile approaches to oversight in corporate management. Therefore, our market analysis also examines how financial and non-financial KPIs interact with each other.

As one of the leading management consulting firms for the insurance sector in Germany, we can provide you with comprehensive support regarding agile management topics. So please feel free to contact us. We will be pleased to exchange ideas with you about getting key performance indicators right.

Christoph Schellhas
Partner, Risk & Regulation

Carsten Horst
Partner, Actuarial Services

Executive summary

Trust in agile management

The Covid-19 pandemic has had a severe impact on markets. It tests the crisis management approaches of many business leaders to their limits because the challenges are highly complex and affect almost every area of business, people's lives, and the economy. In addition, customers and other stakeholders have higher expectations than ever. In order to meet rapidly changing market requirements, companies must be adaptable and agile. The implementation of agile and optimised KPI management approaches helps companies to adapt quickly to unexpected situations, excel at various levels of business, deepen investors' understanding of business processes, and lay a foundation for shaping the company's public image. However, there is still a lack of clarity about which KPIs are most relevant and how they can actively control agile management implementation.

New topics for consideration

The full impact of applying IFRS 17 and IFRS 9 accounting standards simultaneously are not yet clear, and the practical experience that exists is not yet sufficient to quantify the effects reliably. However, an initial impact assessment reveals the expectation that adoption will be a resource-intensive process that changes the presentation of the consolidated financial statements and the reported shareholder's equity. While quantitative financial KPIs will remain the main focus in agile management approaches, innovative KPIs will nevertheless be indispensable for tackling the challenges that are currently on the rise. For example, ESG criteria (environmental, social, and governance) are drawing insurers' attention. Most companies aim to integrate ESG to reduce the impacts of climate change, thus establishing a positive reputation and safeguard long-term success.

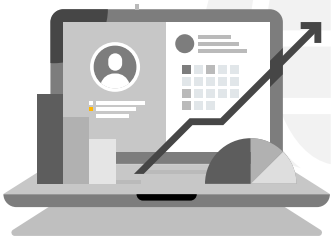
Holistic approaches as a new trend

The annual reports of the domestic and international insurers examined reveal how reporting has evolved to adapt to the individual expectations and demands of the various stakeholder groups. In this context, the stand-alone use of conventional KPIs no longer plays a key role. Traditional management methods used to describe business performance have become outdated. Instead, a holistic approach, integrating financial and non-financial KPIs, is being applied to explain companies' progress towards stated goals and make organisations fit for increasingly uncertain times. Financial KPIs, such as consolidated adjusted earning profit, gross premiums written, return on equity (RoE), combined ratio, the value of new business, taken together with non-financial KPIs, such as employee engagement, ESG integration, net promoter score (NPS), and diversity and inclusion, are already being widely reported as part of financial reporting.

Using both traditional and non-traditional KPIs is key

PwC can help you draw up best-practice KPIs for agile management based on your performance data and adjust your milestone and resource planning. Our solution is based on our experience from numerous transformation projects. We focus on incorporating value drivers into your core management tools and your approach to external reporting. Furthermore, our solution also provides high-quality non-financial information and facilitates rapid decision-making and communication with market participants at all times. These measures increase the productivity of your projects while improving the quality of the insights provided to various stakeholder groups. Your envisaged transformation will therefore be a resounding success.

Market study highlights



How can insurers meet new challenges?

The insurance industry is facing new and unfamiliar challenges, both externally and internally. The most significant drivers of external influences have been the Covid-19 pandemic, the ongoing low-interest-rate environment, climate change, and cyber-attacks. In addition, internal challenges, such as data protection, capital management, optimisation of the product portfolio, and talent management, also have to be addressed. In the year under review, KPI landscapes changed fundamentally as companies' business models have shifted towards sustainability. Consequently, innovative approaches and new KPIs need to be generated to measure and manage the impacts of the obstacles.

Impacts of IFRS 9 and IFRS 17

In 2020, the IASB aligned the effective date of IFRS 9 and IFRS 17 for insurers to 1 January 2023 to minimise the effect of the different effective dates. These new standards are expected to bring about increased global consistency and increase comparability across insurance companies. In addition, the parameters for measuring the companies' success will change, thus challenging insurers to identify crucial KPIs. Despite the challenges, implementing IFRS 9 and IFRS 17 will provide more insights into each insurer's financial status, thus enabling investors to draw on more information regarding profitability and performance.

How can insurers successfully manage the upcoming standards

Due to the persistence of external and internal challenges, traditional controlling approaches no longer meet market requirements, the insurance industry is being forced to adopt agile management approaches.

ESG criteria are becoming more critical as part of non-financial KPIs. Such integration is indispensable because sustainability across all business units is linked to positive reputation and long-term success. For example, environmental criteria incorporate environmental issues into corporate management by means of CO_2 balances or sustainability rankings. Furthermore, social aspects also need to be considered to interact appropriately with different stakeholders such as employees and customers. Finally, governance approaches need to communicate the internal processes and rules that have to be complied with.

What to expect from this market study

1

Insurance market analysis

- Largest internal and external challenges for the insurance industry.
- Trending KPIs among largest insurers
- How companies integrate ESG into their daily business operations
- The impacts of IFRS 9 and IFRS 17 on insurance companies' business operations

2

How PwC can support you

- Questions discussed by managers
- Agile solution is the key success
- Guiding you as your strategic partner throughout your transformation process

1

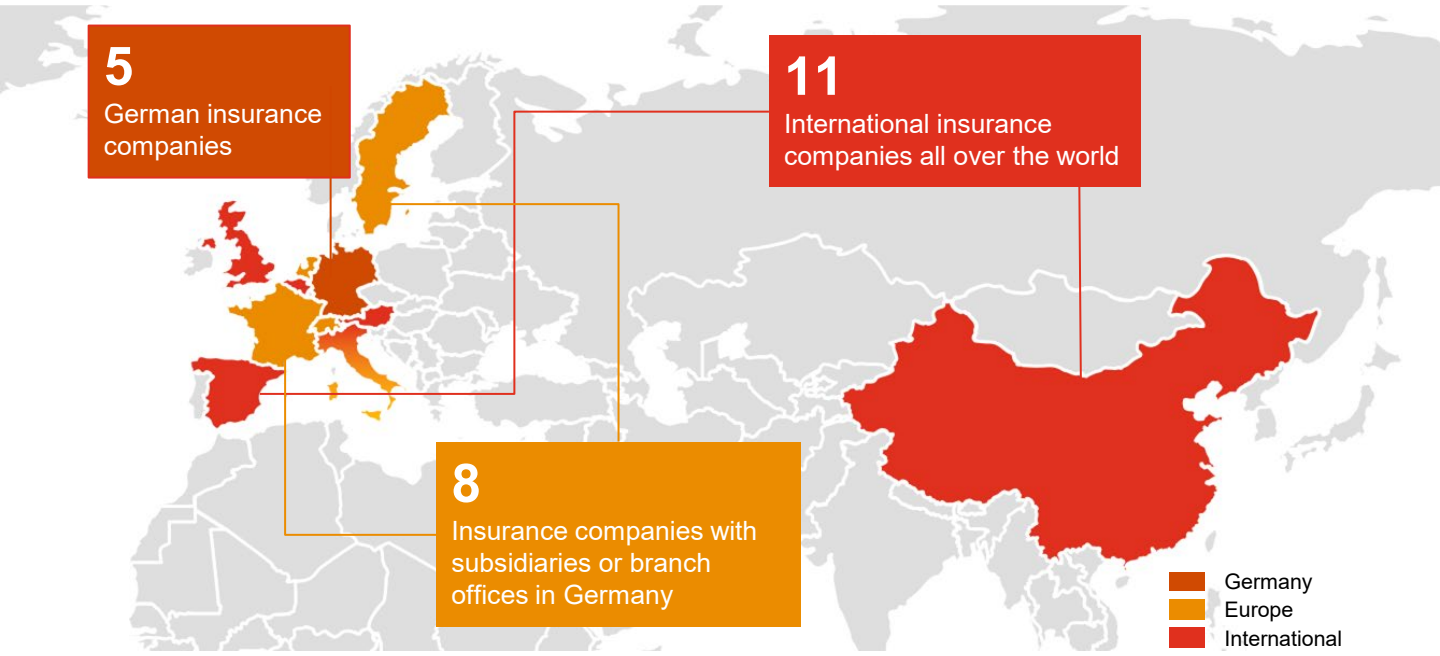
Insurance Market Analysis

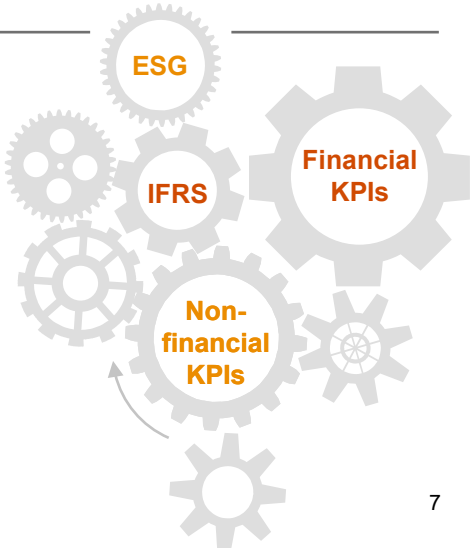
Population and methodology of the market analysis

Methodology

In collaboration with the Technical University of Munich, we conducted our second market analysis that builds upon last year's findings regarding innovative KPIs. This year's study aims to single out the changes in KPIs at insurance companies caused by the effects of external and internal challenges. Furthermore, the analysis also focuses on the integration of ESG and the impacts of the obligatory implementation of IFRS 9 and IFRS 17. Finally, in the latter part of the study, we formulate an approach to guide you through the increasingly complex financial reporting environment.

This study analyses 24 insurance companies (with gross written premiums totalling €582.8 billion), comprising five German insurance companies, eight insurance companies with subsidiaries or branch offices in Germany and eleven international insurance companies. These insurers have implemented or will implement IFRS 9 together with IFRS 17 starting from 1 January 2023. Therefore, the data collected and interpreted is mainly from the insurers' 2020 annual and sustainability reports. In detail, the focus of data was on consolidated disclosures, financial statements, and the company expectations stated in the annual reports.





We would like to take this opportunity to thank Vu Que Anh Nguyen and Hai Linh Nguyen from the Technical University of Munich (TUM) for their excellent cooperation in preparing the market study.

Non-financial KPIs gain importance in the insurance industry

Financial KPIs still important among insurers

Conventional and financial KPIs are still a major component of agile management. The most common KPIs among domestic and international companies are consolidated adjusted operating profit, return on equity, gross written premiums, and combined ratio.

With the implementation of IFRS 17, these KPIs will be affected. The standard will change how insurers measure and report their profits, requiring them to value insurance contracts based on current fulfilment cash flows and a contractual service margin. The combined application of IFRS 17 for insurance liabilities in conjunction with IFRS 9 for the backing financial instruments will require insurers to match the characteristics of their assets with those of their liabilities to avoid economic mismatches.

Non-financial KPIs challenge traditional management approaches

The economic environment of insurance companies is changing. New internal and external challenges are emerging as the increasing importance of climate change, customer and employee satisfaction and digitalisation becomes evident. To address these issues, new and innovative KPIs must be implemented to sufficiently address such irreversible changes.

Insurance companies implement ESG ratings or CO2 reductions by reducing paper waste and using green energy to reach sustainability and climate goals. Other innovative KPIs relate to employees (employee engagement), customers (net promoter score, retention rate), diversity and inclusion, data and risk management systems.

These are the most common and uncommon financial KPIs according to our market study:

Financial KPIs

Common
Group adjusted operating profit
Return on equity (RoE)
Gross written premiums
Combined ratio
Value of new business
Earnings per share
Dividend per share
Group net income

Not common
Return on investment
Total expenses
Risk and fee results
EBIT – operating margin
Total revenue
Total shareholder return (TSR)
Pay-out ratio
Cash remittances

Non-financial KPIs

Common
Employee engagement
ESG integration
Diversity and inclusion
Net Promoter Score (NPS)
CO_2 reduction
Net-Zero Asset Owner Alliance
Data protection and cybersecurity
Risk-based management systems

Not common
Community investment
Responsible investment
Patent application
Brand value
Retention rate
Technical result in reinsurance
Product development

The impact of Covid-19 on the insurance industry has clearly been severe

The external challenges are

Over 15 companies

1. Covid-19 pandemic
2. Climate challenge
3. Digitalisation (cyber-attacks)
4. Low-interest-rate environment

10 – 15 companies

5. Geopolitical disputes (Brexit, economic conflicts)
6. Demographic change
7. Regulatory environment (e. g. IFRS 17, SII Review, ESG)

Less than 10 companies

8. Intense competition (FinTechs)
9. Stakeholder expectations

Severe challenges

The KPI landscape is changing due to various external challenges that need to be appropriately addressed. The Covid-19 pandemic is having severe impacts on insurance companies. To some extent, higher mortality rates have led to higher life insurance claims, adversely impacting the earnings of life insurance companies. Furthermore, the pandemic has also increased the likelihood of bankruptcy among corporate customers.

Climate change constitutes an ongoing challenge. The risks here result from the increasing prevalence of natural phenomena. Many insurance companies also generally suffer from the inadequacy of products and services concerning consumers increasingly motivated by sustainability issues. Moreover, regulatory pressure is increasing the necessity for further action in response to climate change.

Due to digitalisation, information security risk (cyber-attacks) is increasing, requiring specific tools and skill set to increase data security. In addition, digitalisation influences changes in customer behaviour (the use of personal data, sales channels), and there is increased demand for the workforce due to AI and robotics.

The low-interest-rate environment is making it harder to generate the guaranteed rate of interest. In particular, life insurers face challenges in making assumptions about future interest rates.

Moderate challenges

Brexit is resulting in restrictions on abilities to transfer personal data between the EU and the UK. In addition, tensions between the US and China negatively impact the cross-border activities of insurance companies operating in these countries.

Demographic change is another ongoing moderate challenge with a negative impact on the adequacy of product offerings. As people have higher life expectations and state pension systems are pushed to their limits, it is no longer possible to equate senior citizens with the “traditional” pensioners of the past.

In addition, regulatory requirements have increased in terms of their level of detail and complexity. As a result, insurers can be impacted in the event of failures to respond on time as well as by potential penalties and reputational risk due to non-compliance with applicable regulations.

Minor challenges

Intense competition and stakeholders’ expectations pose challenges for some international insurance companies. However, these challenges are not commonly mentioned issues.

How external challenges have changed over recent years

Covid-19 has severely affected global growth and challenged the companies' flexibility, responsibility and resilience. Some companies are addressing the situation through geographical and product diversification. For others, this has been partly compensated by a fall in claims in the mobility sector.

Brexit, intense competition and the low-interest-rate environment

Insurance companies have been paying less attention to Brexit, intense competition, and the low-interest-rate environment. In the case of Brexit, this is mainly because insurance companies have already adapted local entities to the direct effects of Brexit concerning the settlement of derivatives and the necessary legal conditions for their business operations.

Climate and demographic change

Insurance companies have paid greater attention to climate challenges and demographic change during the past year, driven in part by increasing regulatory pressure. Many companies are committed to building a more sustainable and customer-focused business model by means of ESG aspects and customisation.

Digitalisation & regulatory environment

Digitalisation and the regulatory environment continue to have mild effects. However, the concerns surrounding legal standards have changed the focus to the effective date of IFRS 17 and IFRS 9 for insurance companies.

Shift in ranking of external challenges

2018		2020		
01	Low-interest-rate environment	01	Covid-19 pandemic	new
02	Geopolitical disputes	02	Climate change	+6
03	Intense competition	03	Digitalisation	+1
04	Digitalisation	04	Low-interest-rate environment	-3
05	Trade disputes*	05	Geopolitical disputes	0
06	Legal obstacles	06	Demographic change	+3
07	Global growth slowdown**	07	Regulatory environment	-1
08	Climate change	08	Intense competition	-5
09	Demographic and social change	09	Stakeholder expectations	new

*Trade dispute factor (2018) included in geopolitical conflicts (2020)
** Global growth slowdown factor (2018) included in Covid-19 pandemic's effects (2020)

New internal challenges largely driven by external environment

Product range

- Creating a product range to satisfy changing customer behaviour and shareholders
- Design of new insurance products due to new regulatory standards (IFRS etc.)

Digitalisation

- Data and information protection measures
- Development of overarching platforms (customers' personal data, sales channels)
- Security infrastructure for accessing company network

Capital management

- High levels of uncertainty concerning forecasts about further trends on the capital markets
- Finding new forms of investment

Company structure

- Creating transparency
- Customising strategy within different core markets

Talent management

- New activities and jobs as well as digital media and working from home have changed the demands placed on employees
- New skills are increasingly required
- Talent acquisition and employee retainment strategy are not being able to attract, retain and pay world-class talent

Note: talent management and security infrastructure for accessing company network are new internal challenges

Ongoing internal challenges

In addition to external challenges, internal obstacles are also emerging. For example, digitalisation continues to be one of the most significant internal challenges. Although this affects the behaviours and expectations of customers, it also results in an increased probability of cyber-attacks. Therefore, many insurance companies perform forecasts, evaluations, and recordings of their current data protection systems to foster data security.

Regarding company structures, transparency in business operations and customisation in different core markets have become part of companies' core strategies. The challenge faced in the area of capital management (hunt for yield) remains acute due to the ongoing market uncertainties and the low-interest-rate environment.

Insurance companies face the complex process of changing their product ranges. However, in contrast to 2018, rather than simplifying their portfolios, companies are now tending to create new product ranges to satisfy the growing demands of shareholders and remain competitive in the context of regulatory standards (ESG, IFRS 9, and IFRS 17).

New internal challenges

Talent management has arisen as a new challenge due to the external effects of Covid-19 as well as market competitors. The nature of work itself is changing immensely due to new activities, jobs, and digital media. In addition, the demands placed on employees are also changing as working environments undergo significant geographical transformations. Many employees were required to move to the home office at a time when customer contacts were peaking. This situation has led to challenges in satisfying customers and providing the infrastructure and network access needed for employees to ensure improved quality of work from the home office. In addition, it is hard to attract, retain and pay world-class talent due to extreme market volatility.

Capital management is another internal problem. It is proving hard to predict the future market trends and find new investment forms due to the ongoing Covid-19 pandemic.

ESG integration across all areas at insurance companies

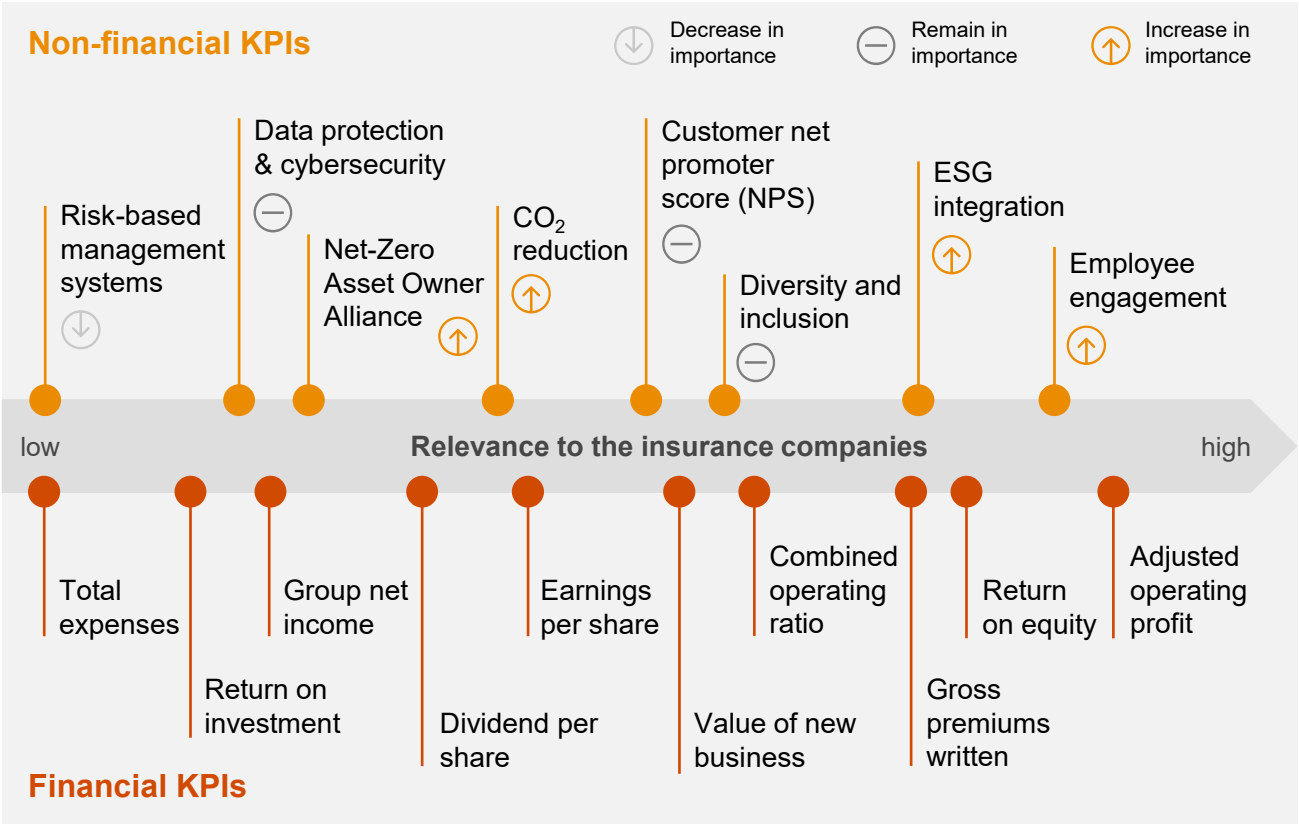
91%

of companies in the study population have integrated ESG standards into their corporate management approach

Combination of financial and innovative KPIs at insurance companies

ESG integration is increasing in importance due to the external obstacles faced and in order to maintain the reputation and safeguard success. 91% of the companies in our market study have already integrated ESG standards into their corporate management approach. The establishment of business units and core processes has intensified and is indispensable for tackling internal and external challenges. Based on the evaluations of current annual and sustainability reports, environmental and social issues are deemed essential for upholding the external reputation and achieving long-term success. Successful corporate management is only possible once non-financial innovative KPIs are integrated with conventional financial KPIs so that a complete set of control tools is made available.

The following chart outlines the integration of non-financial KPIs and financial KPIs:



Footnote: the arrows display the comparison between 2018 and 2020

ESG integration is key to maintaining an excellent reputation and achieving long-term success

Multifaceted nature of ESG criteria across insurance companies

In order to deal with ESG criteria properly, quantitative KPIs need to be established. With regard to environmental responsibility and sustainability, most insurance companies are focusing on climate change, decarbonisation, and saving resources like water, energy, and paper. Furthermore, responsible investment based on principles of inclusion and exclusion is also playing a key role in the area of sustainability. ESG criteria are used to determine whether an investment is appropriate, e.g. controversial issues such as coal, and oil sands are excluded, whereas investments into green energy, infrastructure and technology are included. Including ESG products, such as green bonds or sustainable funds, in investment portfolios is also an option. Most insurance companies have become members of ESG initiatives such as the Net Zero Owner Alliance or Principles for Sustainable Insurance. Furthermore, ESG ratings such as MSCI and FTSE4Good are crucial for maintaining a good reputation.

The social topic area relates to the different stakeholder groups across the insurance industry. Overall, the processes of achieving social standards are expected to improve a company's reputation as an employer and business partner. Employee engagement, surveys, and training sessions facilitate improvements in human capital and increase satisfaction and productivity. Furthermore, supporting inclusion and diversity within companies can lead to greater tolerance overall. In this process, customers should also be considered. Promoting customer rights and supporting local communities can have an enormous impact.

Governance deals with internal processes and rules. The overarching goal is to uphold human rights and ethical guidelines within operations. Due to digitalisation, data security is becoming increasingly essential, and risk management also plays an important role here. Codes of conduct serve as internal guidelines.

Environmental

- Climate change and decarbonisation
- Responsible investment and portfolio
- Reduce resource consumption
- ESG products
- ESG memberships & rankings

Social

- Inclusion and diversity
- Employee engagement & training
- Customer & community support
- Promote health & well-being

Governance

- Human rights
- Ethical guidelines
- Data security
- Risk management
- Code of conduct

Environmental KPIs

Carbon Footprint:
- Emission per employee
- Material consumption

Responsible investment
- % managed under ESG/ Responsible investment policy
- Number of responsible projects

Energy:
- Investment in renewables in €
- % of renewable energy

Social KPIs

Employees:
- Number of employees/average time of service/retention
- Employee surveys
- Employee net promoter score (eNPS)
- Women's quota
- Customers
- Net promoter score (NPS)

Governance KPIs

- Data security (ensured/not ensured)
- Memberships & certificates

> Understanding and managing the environmental, social and governance (ESG) impact and requirements of its business is fundamental to brand, reputation, and ultimately its long-term success.
> – *Prudential Annual Report 2020*

The impacts of implementing IFRS 9 for insurance companies

IFRS 9 – Financial Instruments

In addition to ESG integration, insurance companies are getting ready to apply IFRS 9 and IFRS 17 for the first time from 2023. Concerning the current implementation status of IFRS 9, around 15% of the study population have adopted IFRS 9 since 1 January 2018 because their activities are not predominantly related to insurance activities. In general, two alternative options exist for the remaining insurance companies:

- Overlay approach: allows all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may result from applying IFRS 9.
- Temporary exemption: permits insurers to continue to apply IAS 39 Financial Instruments. Companies that qualify for the temporary exemption must make additional disclosures to enable users of financial statements to make comparisons with companies that applied IFRS 9.

All insurers in the study population decided to apply for the temporary exemption to remedy the accounting consequences of the difference in implementation date between IFRS 9 and IFRS 17.

Impacts of IFRS 9's phases:

Classification and measurement | Impairment | Hedge accounting

1

Phase 1 has the most significant impact on insurance companies. It divides debt instruments into two groups: (1) debt instruments meeting the contractual cash flow criterion (SPPI test*) are measured under either fair value through other comprehensive income (FVOCI) or amortised cost (AC) based on the business model, and (2) those that do not meet SPPI criteria are measured at fair value through profit or loss (FVPL).
The new classification rules will result in more financial instruments being measured at fair value through profit or loss (FVPL). In addition to financial instruments and investment contracts currently measured at FVPL, equity instruments held and units in investment funds that do not meet the SPPI test and derivatives are now measured under FVPL.

2

Under IAS 39, provisions for credit losses are measured using an incurred loss model, which results in credit losses being recognised only when there has been an incurred loss event. IFRS 9 replaces the existing model with a forward-looking one, the "expected credit losses" (ECL) model. IFRS 9 outlines a new "three-stage" model ("general model") for impairment based on the changes in credit quality since initial recognition. Within these three stages, from "Performing" to "Underperforming", the length of recognized expected credit losses is changed from 12-month to lifetime credit losses first and thereafter from "Underperforming" to "Non-performing" the effective interest bases is adjusted. This new model will result in earlier recognition of credit losses compared to IAS 39.

3

The new standard, IFRS 9, improves the decision-usefulness of the financial statements by better aligning hedge accounting with the risk management activities of an entity.
For simplification of effectiveness testing**, IFRS 9 requires no retrospective effectiveness test, but there is a requirement to make an on-going assessment of whether the hedge continues to meet the hedge effectiveness criteria, including that the hedge ratio remains appropriate.

** SPPI test is a cash flow characteristics test. Financial assets that meet the SPPI criterion are those with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.*
*** IAS 39 requires two kinds of effectiveness tests: a prospective effectiveness test and a retrospective effectiveness test. Both tests need to be met for hedge accounting to be applicable. The retrospective test under IAS 39 regards a hedge as highly effective if the actual results of the hedge are within a range of 80%-125%.*

Increase in demand for solutions to cope with the impacts of IFRS 17

Key financial metrics

Similarly to IFRS 9 and its effective date, application of the IFRS 17 standard is mandatory for insurance companies from 1 January 2023 at the latest. The parameters for measuring the success of companies will change. For example, gross written premiums will no longer be presented in the statement of comprehensive income. New indicators, such as the contractual service margin (CSM), analysis of movements, and maturity analyses, will be added. With the implementation of IFRS 17, the expected profit margin will be recognised over time instead of an immediate profit or expense.

Other changes in key metrics

- Adjusted operating profit (AOP) will be impacted because establishing the mechanisms needed to adjust IFRS profit to AOP under IFRS 17 will mean greater complexity than at present.
- Key-value and other measures include return on equity and the Solvency II coverage ratio, remaining one of the prime KPIs. IFRS accounting numbers do not directly determine the Solvency II coverage ratio, but there could be an indirect impact e.g. through tax.
- IFRS 17 will not affect Solvency II own funds and cash/dividend/free surplus.

IFRS 17 Insurance Contract's challenges

The implementation of IFRS 17 will boost demand for tailor-made reinsurance solutions designed to optimise the cost of capital and solution prices. Insurance companies believe that:

- The new IFRS 17 criteria will result in new risk management approaches relating to asset and liability management as well as company KPIs.
- Much higher volumes of data need to be processed and validated compared to IFRS 4.
- Other impacts are

Complexity

- IFRS 17 entails significant complexity
- Existing infrastructure is unable to accommodate the changes in reporting relating to the new standard
- An 'IFRS 17' calculation engine' is needed to extend existing spreadsheets considered ineffective

Cost

- The cost of businesses for IFRS 17 implementation programs is garnering significant attention
- Many are seeking compliance only – minimum viable product (MVP)
- Traditional vendor solutions come at prices that do not tally with the MVP

Efficiency

- In 2021, design, build and testing need to be largely complete as most insurers are targeting a parallel run during the 2022 comparative period
- Desire to minimise disruption to existing finance and actuarial ecosystems in order to reduce integration efforts

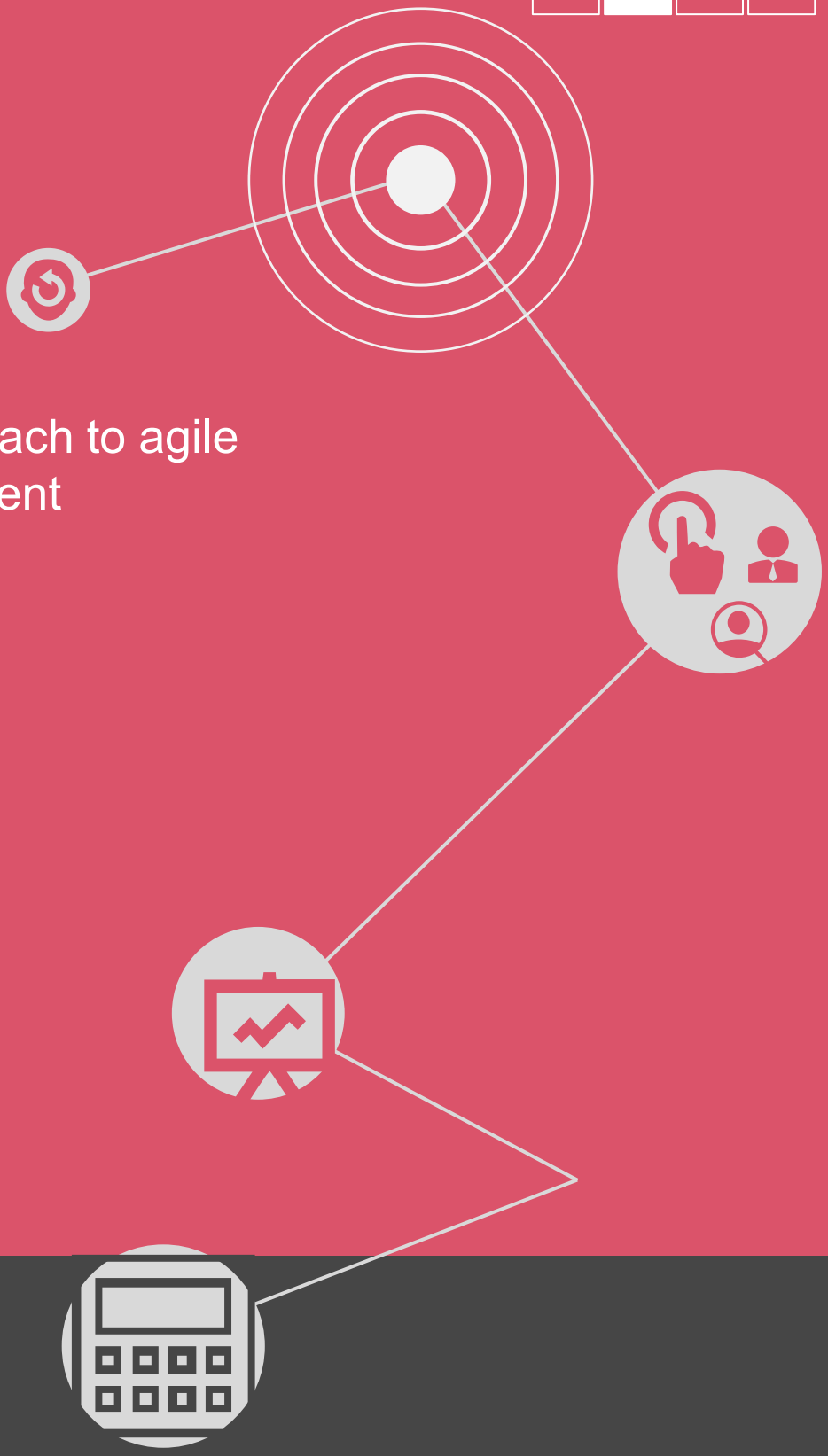
Risk

- Failure to deliver a robust and compliant set of IFRS 17 financials is a significant business risk
- Many clients applying IFRS 17 have not overseen a change of this scale and complexity before
- Self-built solutions are seen as too risky for consideration, meaning "off-the-shelf' solutions are the preferred option

> The impact of implementing IFRS 9 and IFRS 17 will result in a significant change to accounting policies and presentation in the consolidated financial statements and will affect the reported shareholder's equity, net result, and other comprehensive income. – *Ageas Annual report 2020*

2

Our approach to agile management



Identifying problems at an early stage and making the right decisions

Questions for discussion with management

How can your insurance company be managed in an agile manner?

How can you create architecture that enables decisions to be made quickly?

What are the company's individual goals and current circumstances?

How can you successfully implement financial and non-financial KPIs in order to overcome internal and external challenges?

Changing environments can be embraced at any stage within business processes to achieve competitive advantages. This means insurance companies must focus on continuous improvement.

This is where the agile management approach comes into the picture to help your company overcome such challenging times. This method will be necessary for you as an insurer in the future and may even become a unique selling point. The implementation of management is, therefore, a matter of self-interest and is ultimately inevitable for all companies.

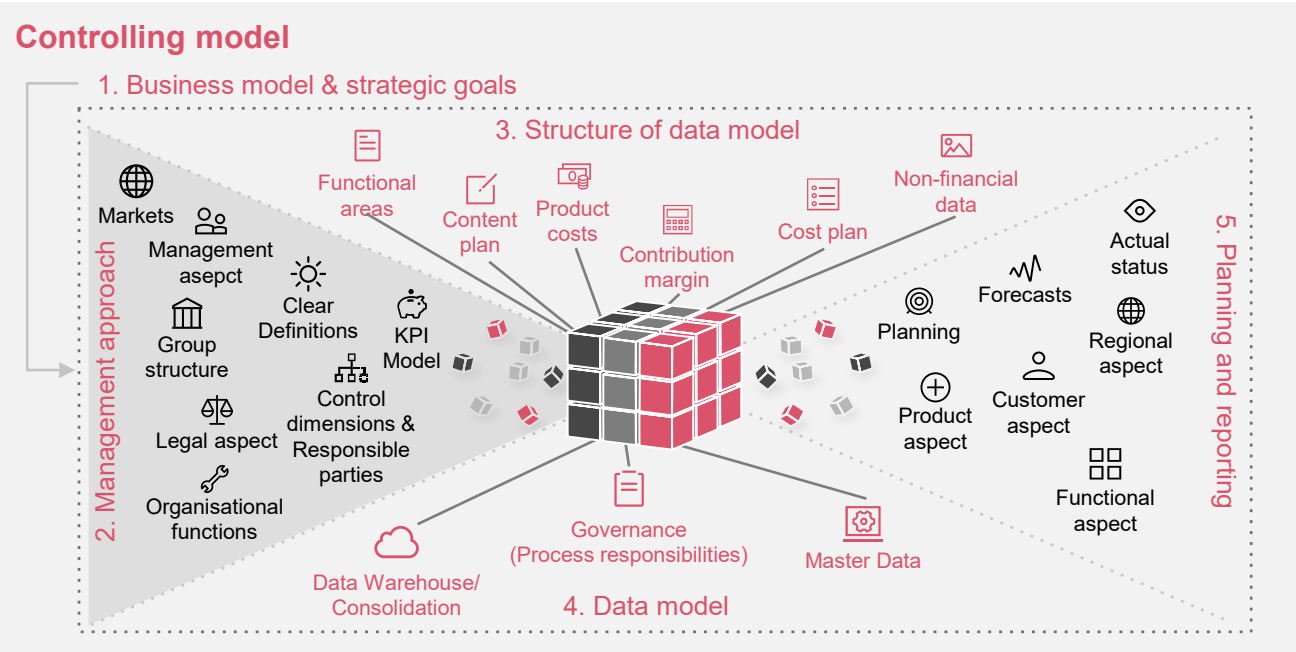
Overcoming the challenges

The agile management methods:

- Focus on a coordinated corporate and risk strategy
- Involve all key stakeholders
- Consider the dependencies between the KPIs (hierarchical structure) and a multi-year/planning perspective
- Remain flexible regarding adjustments to strategy
- Take appropriate account of regulatory and internal viewpoints
- Measure consistently, rationally, specifically (drill-down) and extensively

PwC interacts extensively with insurance boards and analysts, gaining industry-wide insights and perspectives. We know the importance of applying agile management methods for ensuring that all factors are considered in making strategic decisions.

Our holistic approach and solutions



1

The controlling model is derived from business model and the strategic goals

The control model is designed with a view to companies' future development and data requirements in order to facilitate decision-making processes.

2

Steering approach and fact-based decisions

Data is collected from integrated external and non-financial sources to facilitate the structuring of hierarchies and reporting methods.

3

Consistency plays a key role in management and control activities

Consistent data across all control dimensions (e.g. product, customer, region, financial; and non-financial) is required to build trust in data-based decision-making processes. This concept also applies to calculation methods (cost accounting/profitability analysis).

4

The right data

The data used within the controlling model is based on relevant and available information from the data warehouse and master data sources.

5

Planning and reporting

Based on your requirements, we perform real-time analyses to provide forecasts and help you make appropriate and effective decisions about reporting and strategy.

The following aspects need to be considered

To make effective decisions, companies must take a holistic view of numerous aspects and sub-topics. For example, a large amount of information is needed in real-time. It is thus necessary to adjust information flows flexibly according to rapidly changing market environments and update information rapidly and with precision.

This means that numerous elements must be put in place to enable an agile management.

Existing knowledge must be supplemented with a new level of competency in order to remain competitive

Optimised IT architecture and data budget are required to achieve the future target state of being information-enabled

True integration of actuaries, risk management, accounting (incl. asset accounting) and controlling

Integrated “closing calendar” in order to become faster through smart collaboration and digitisation

A vision for the future and an integrated model for managing the company

How you should manage this approach and how we will assist you

What should you do?

Run the new numbers

- Calculate your most important KPIs under the new regulations

Understand new information regarding the amounts recognised

- Insurance revenue & sources of profit
- CSM and changes in CSM
- Asset/liability interactions

Determine whether your KPIs need to change

- Consider the options available for new/adjusted KPIs
- Stress/scenario-test the options identified to ensure they work for your business
- Be clear about differences from existing KPIs due to more comparable measures and more consistent methodology

Engage with analysts and investors

- Proactive planning regarding who you will speak to and when prior to IFRS 17 implementation

Explain disclosures of judgements and risks

- Limited impacts on dividends, tax and solvency and no impact on investment contracts
- Significant judgments and changes in judgments made
- Disclosures about risks arising from insurance contracts

Our services

Planning and impact assessment

- We assist you in understanding and producing the metrics required to tell your investor story
- We analyse your current KPIs and compare them to those of your competitors
- We also examine which goals are essential for you

Options analysis and design

- Working together with you, we identify the key issues, risks and challenges that need to be considered and addressed when designing your future KPIs
- We have in-house experts who will support you with metrics for internal and external market reporting as well as visualisations

Implementation support

- Appropriate and measures are promptly derived based on the information generated and insights gained
- We will accompany you throughout your transformation process and work with you to develop agile management methods tailored to your needs and based on your current reporting requirements
- We will act as your implementation support partner to deliver the changes required to overhaul your data structures and market reporting, systems, infrastructure, processes and controls

Footnote: depending on the state of the concept, some aspects can be skipped.

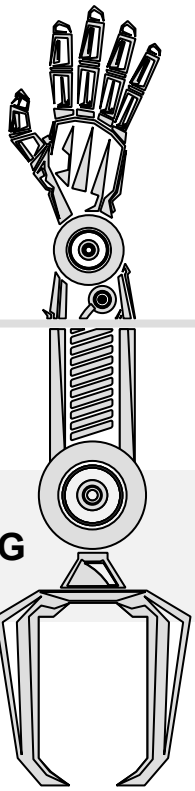
PwC always has the right contact partner for your individual needs.

The insurance industry is undergoing a challenging transformation phase. We have already outlined the considerable internal and external challenges facing the industry. Your insurance company cannot escape these either. To operate successfully in this changing world, it is necessary to have a more refined and innovative set of management tools.

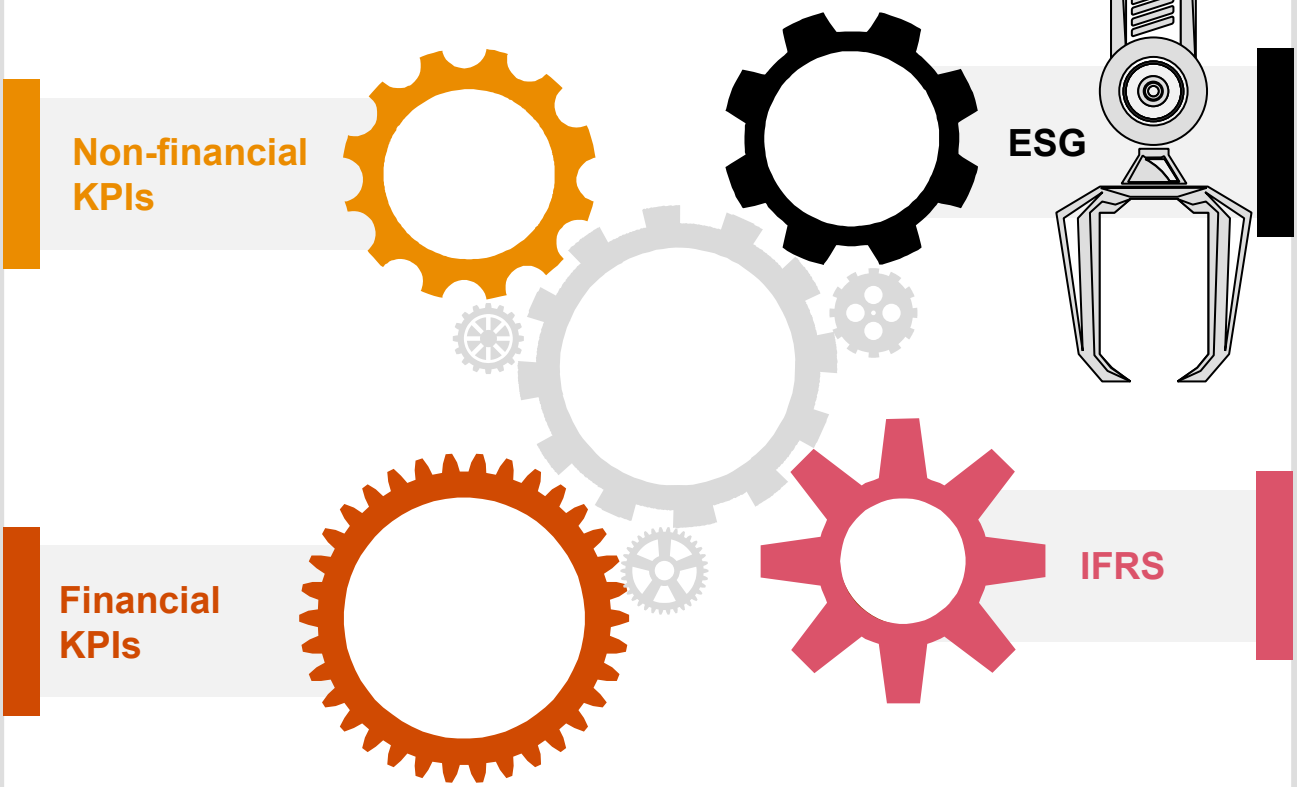
Our analysis of current annual reports clearly shows that there is a trend towards combined management that uses both traditional and non-traditional KPIs. For example, ESG criteria, such as carbon footprint, customer loyalty and satisfaction, and the ratio of women, also need to be considered as key performance indicators. Using our broad network of experts in accounting, tax, legal, actuarial and regulatory matters as well as our IT and data analysts, PwC will support you in bridging the gap between your financial KPIs and non-financial KPIs.

Working in cooperation with you, our approach explores which KPIs should be the most important for you in the future, how to link and present them. In addition, we support you with questions regarding real-time simulations, which are essential.

This approach is based on a corporate and risk strategy that is drawn up with you and takes account of the dependencies between individual KPIs. The development and definition of benchmarks bring about precise and agile measures, including all executive levels. Regularly reviewing these benchmarks makes it possible to adjust your control instruments according to your multi-year strategy.



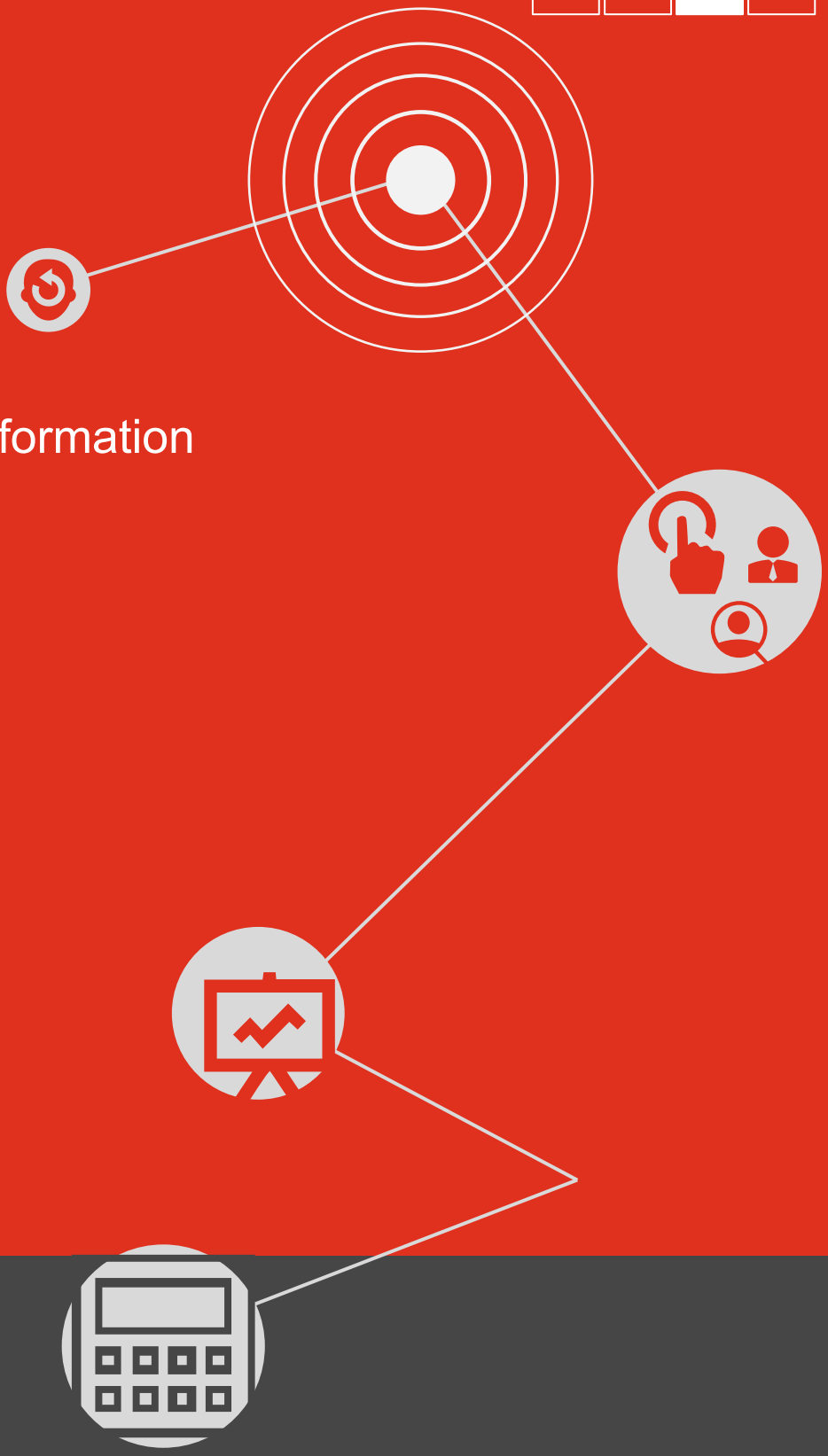
Dependencies of individual KPIs



Footnote: ESG as a rising KPI, which draws the attention of insurance industry.

3

Contact information



Would you like to exchange ideas?

We will comprehensively support you in your transformation process and assist you with your projects (e.g. guideline development and implementation). In addition, we will work together with you to develop agile methods of management that are tailored to your needs and based on your current reporting.

Christoph Schellhas
Partner Risk & Regulation

Frankfurt Office
Friedrich-Ebert-Anlage 35 - 37
60327 Frankfurt am Main

+49 69 9585-6489
+49 1609 6941302

christoph.schellhas@pwc.com

Carsten Horst
Partner Actuarial Services

Hannover Office
Fuhrberger Str. 5
30625 Hannover

+49 511 5357-5914
+49 1515 3369891

carsten.horst@pwc.com

Michèle Färber
Director FS CMAAS

Munich Office
Bernhard-Wicki-Str. 8
80636 Munich

+49 89 5790-5869
+49 1512 3623919

michele.faerber@pwc.com

Mario Möbus
Director Audit, CFA, FS

Düsseldorf Office
Moskauer Str. 19
40227 Düsseldorf

+49 89 5790-5520
+49 171 7693544

mario.x.moebus@pwc.com

Marcel Dulgeridis
FS CMAAS

Munich Office
Bernhard-Wicki-Str. 8
80636 Munich

+49 89 5790-6414
+49 175 1117865

marcel.dulgeridis@pwc.com

Kim Manuela Rix
Actuarial Services

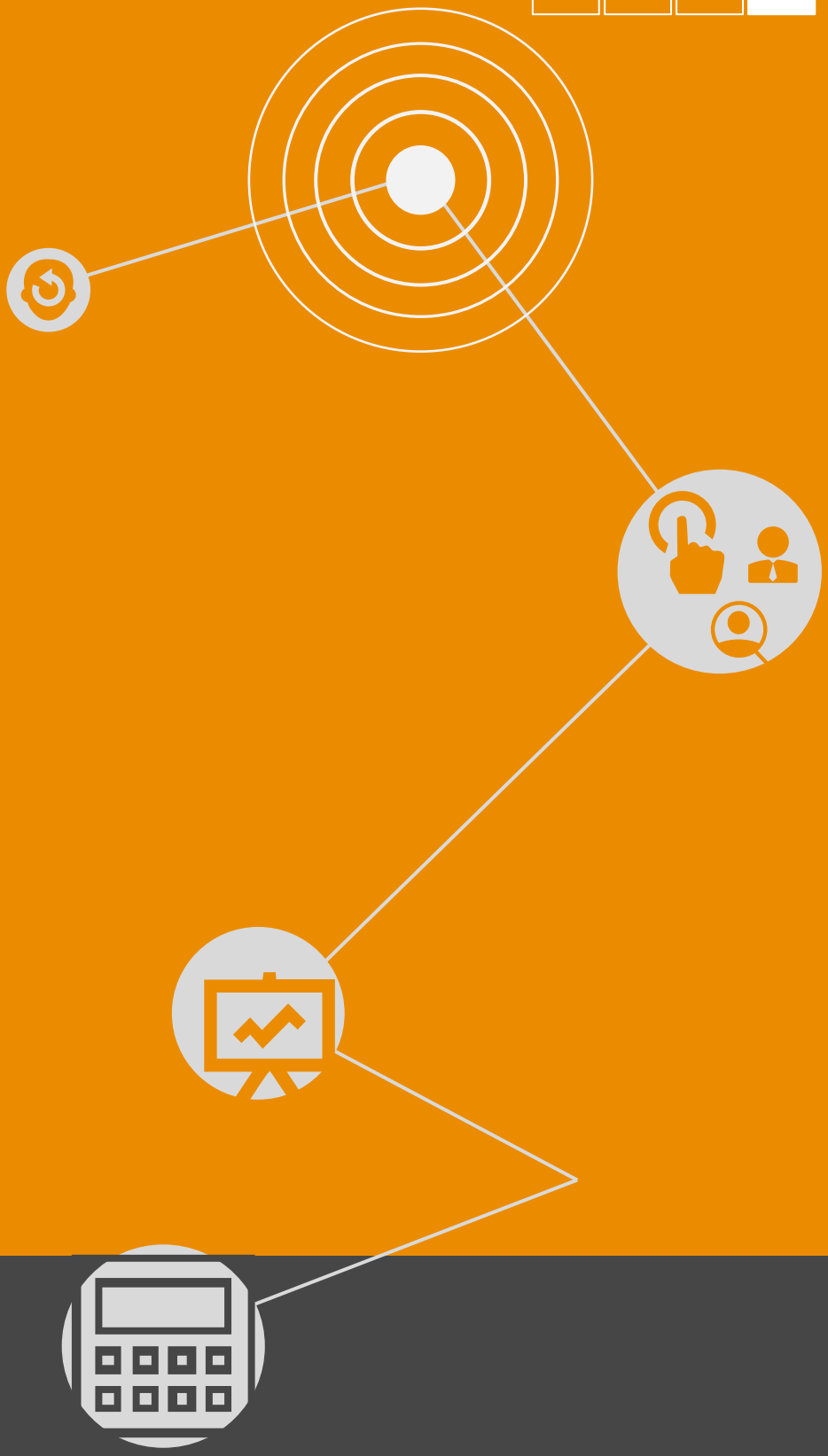
Munich Office
Bernhard-Wicki-Str. 8
80636 Munich

+49 89 5790-6976
+49 171 5248221

kim.manuela.rix@pwc.com

4

Appendix



IFRS 17 Insurance Contracts interaction with IFRS 9 Financial Instruments

2023

The IASB has agreed to another one year delay extending the effective date of IFRS 17 and the IFRS 9 temporary exemption to 1 January 2023 for qualifying insurers. The aim is to minimise accounting mismatches between the measurement of financial assets under IFRS 9 and insurance liabilities under IFRS 17, helping insurers avoid potential mismatches between fair value changes, securities in OCI, and discount rate changes for outstanding claims.

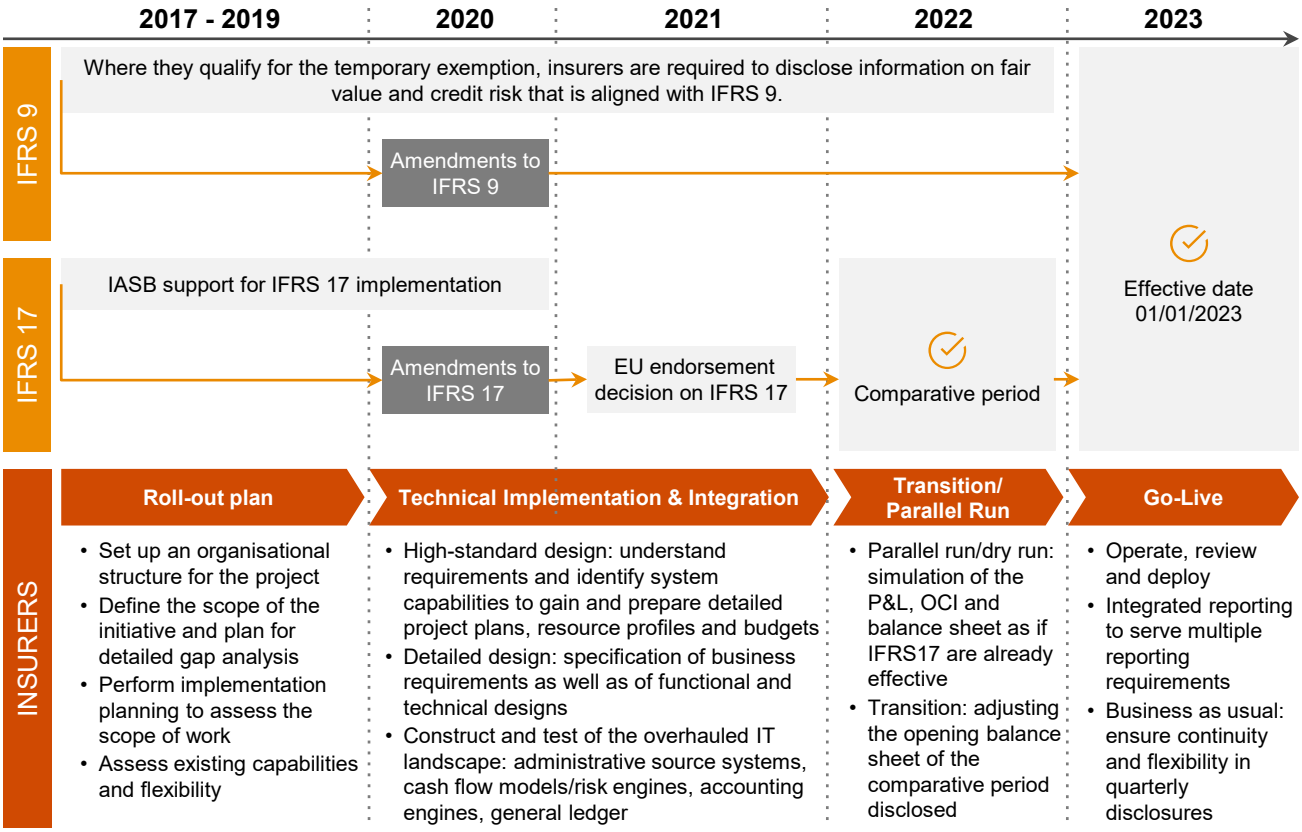
Overview

The IASB issued IFRS 9 Financial Instruments to replace IAS 39 with effect from 1 January 2018, although companies with activities predominantly connected with insurance are eligible to defer their application until 1 January 2023 (based on the agreement by the IASB board in March 2020).

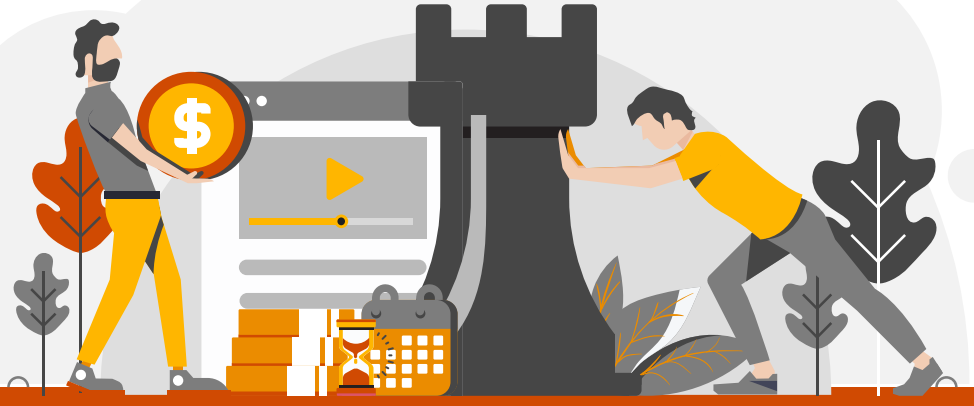
The IASB also issued IFRS 17 Insurance Contracts in May 2017, which encompasses the recognition, measurement, presentation, and disclosure of new and existing groups of insurance contracts.

The endorsement of IFRS 17 is expected till the end of 2021, and the comparative period will start next year to prepare for the official effective date of 2023.

The graph below shows an illustrative roadmap for the implementation of IFRS 9 and IFRS 17:



Lets shape your finance function of the future together!



pwc.com