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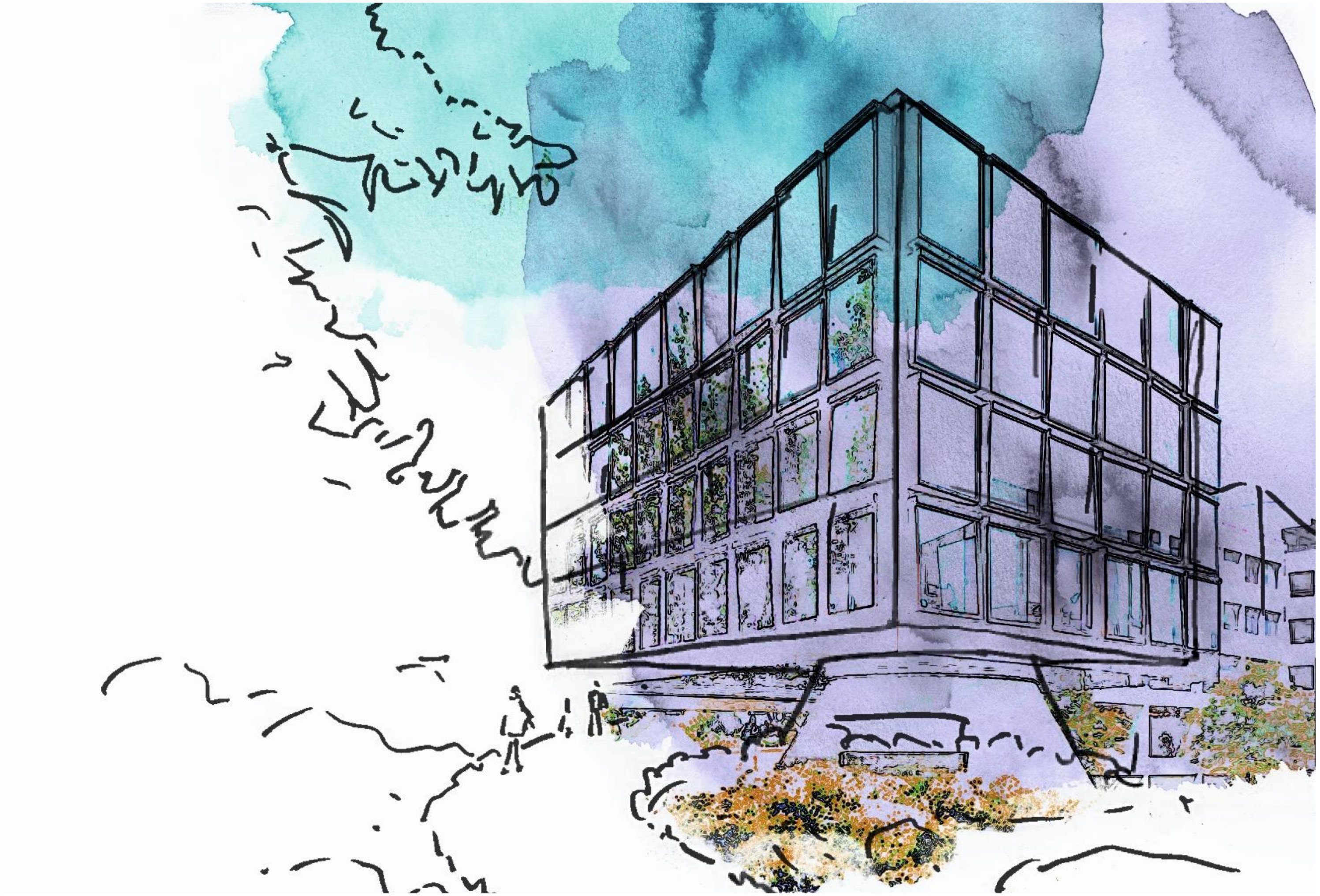


Helvetia Group

Information session on IFRS 17

Agenda

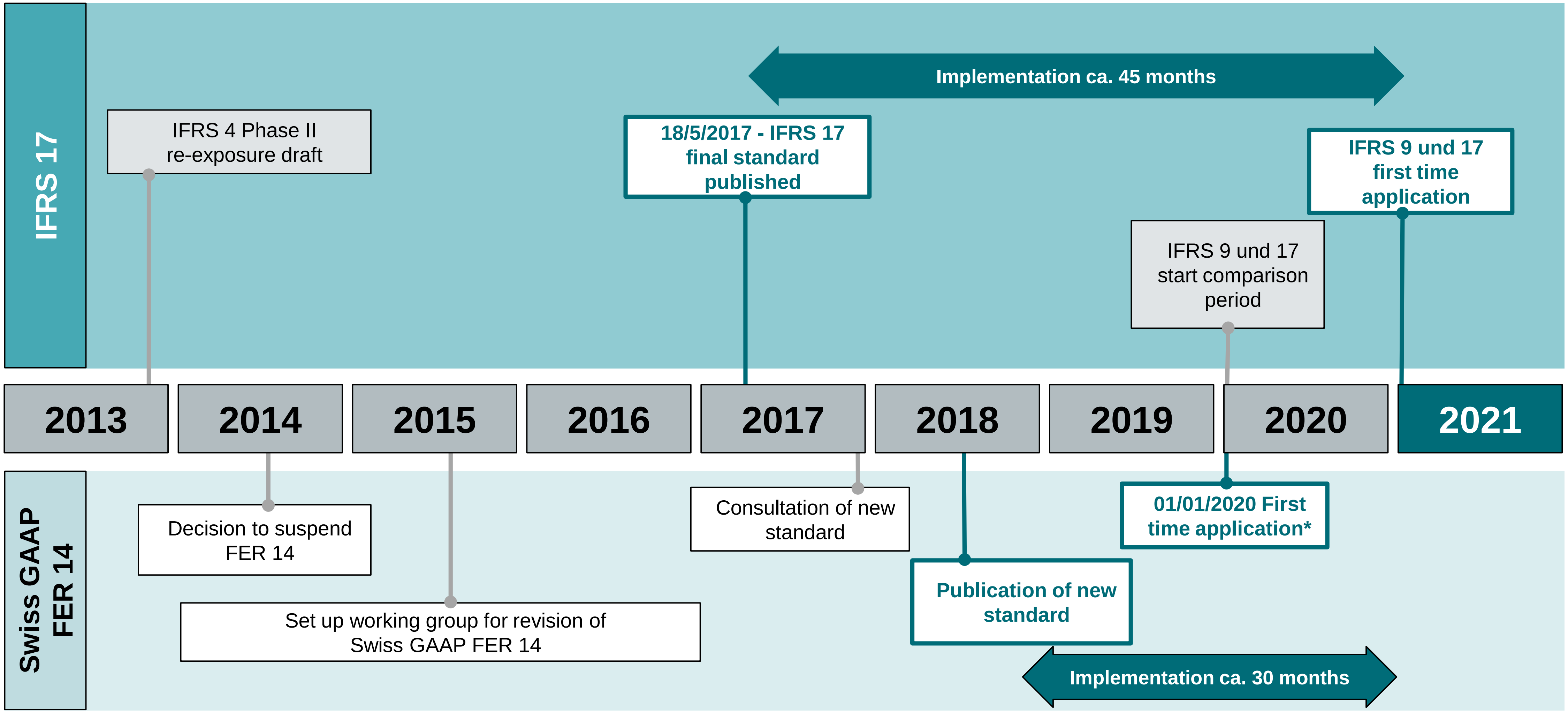
IFRS 17 – Overview
Objectives according to the IASB

1	Economic valuation not only of assets, but also of liabilities
2	Alignment to other industries by the introduction of the revenue concept
3	Greater comparability amongst insurance companies with a consistent measurement approach
4	Better understanding on the part of investors thanks to more consistent and transparent financial statements
5	Closing of economic and financial measurement gaps aiming at a measurement without distortion
6	No impact on the application of other IFRS elements
7	New IFRS 9 standard replaces IAS 39 → Close interlinking with IFRS 17

IFRS 17 – Overview
Alternatives to IFRS

- SIX requires a generally accepted accounting standard (IFRS, US GAAP or Swiss GAAP FER)
- Due to complexity US GAAP is out of question
- Replacement of the previous standard for Group Accounting for insurance companies (Swiss GAAP FER 14)
- Applicable for all Swiss insurance companies, which must publish according to a generally accepted standard under OR (Swiss Code of Obligations)
- Change to Swiss GAAP FER:
  - Swiss GAAP FER only stipulates few valuation principles
  - Predominantly consists of disclosure requirements
- Alternative: Swiss GAAP FER with IFRS basis

IFRS 17 – Overview
Timetable



* Helvetia: first time application as of 01/01/2021 in case of a switch to Swiss GAAP FER

IFRS 17 – Overview
Pros and cons

Life business	Non-life business
– Similar methodology to embedded value – Economic valuation of assets and liabilities incl. TVOG – Profits flow into the balance sheet upon conclusion of contract and are then being amortised in the P&L over time – No accounting mismatch for “participating products” – Risk margin as buffer (valuation uncertainty) – Gross written premiums replaced by insurance contract revenue – Certain savings components not included in insurance contract revenue – Additional transparency / disclosure	– Hardly any changes – Traditional accounting approach (long-term contracts equivalent to life business) – Technical provisions as today but discounted – Economic valuation of assets and liabilities – Risk margin as buffer (see life business) – Gross written premium replaced by insurance contract revenue (earned premiums) – Additional transparency / disclosure

* Time value of options and guarantees

IFRS 17 – Overview
Measurement models for insurance liabilities

- **Building Block Approach (BBA)**
  Must be applied for all contracts based on the discounted best estimate of future cash flows in order to determine the fulfilment value of the assumed insurance liabilities.

- **Variable Fee Approach (VFA)**
  Modified approach that must be applied for “participating contracts”

- **Premium Allocation Approach (PAA)**
  Simplified approach for shorter term contracts, similar to current approach for non-life business (but reserves are discounted)

IFRS 17 – Overview
Balance sheet according to IFRS 17 – simplified presentation

	2016	2017
Financial assets		
Property and equipment		
Goodwill and other intangible assets		
Insurance contract assets		
Reinsurance contract assets		
Cash and cash equivalents		
Total assets		
Total equity		
Insurance contract liabilities		
Reinsurance contract liabilities		
Non-technical provisions		
Total liabilities and equity		

- All estimated future cash flows are recognised as assets and liabilities – but netted and disclosed in one balance sheet item
- All traditional balance sheet items are included – actuarial reserves, unearned premiums etc., but being disclosed under the balance sheet item **“Insurance contract liabilities"**

IFRS 17 – Overview
Assumptions and base data used for the calculation sample

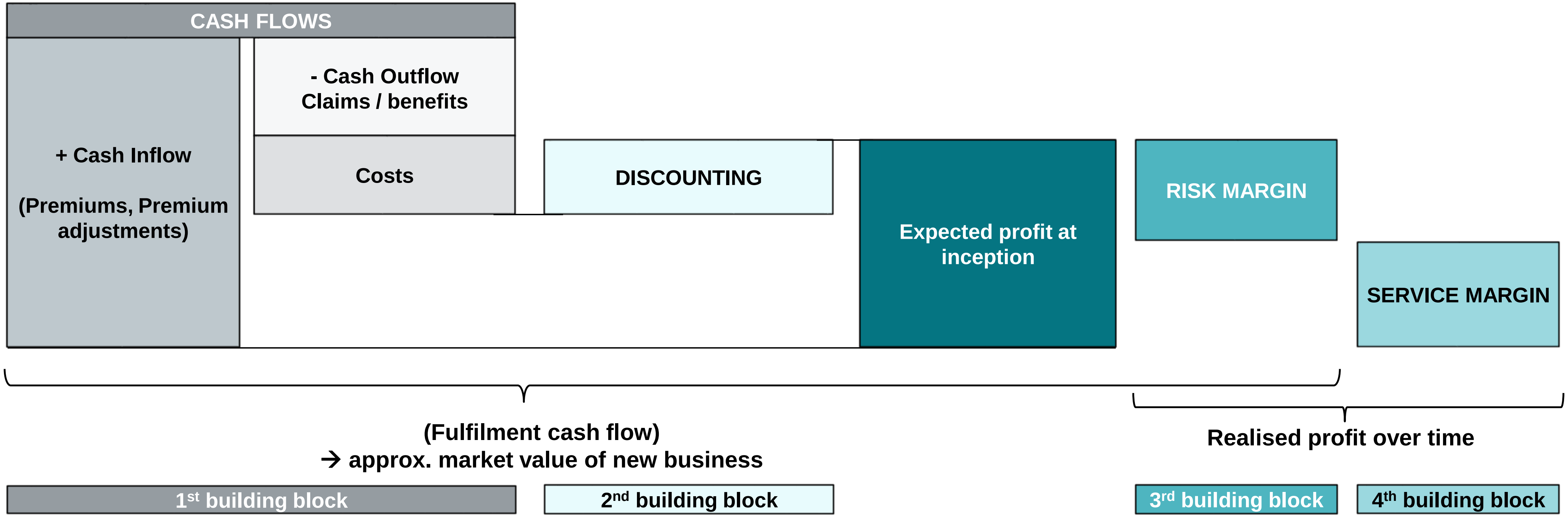
In T0 (at inception)	T1 (expected)	T2 (expected)	T3 (expected)	Total
Cash flows: expected premiums = actual premiums	800			800
Expected claims: estimation at inception / first recognition	-160	-180	-170	-510
Expected acquisition costs = actual acquisition costs	-90			-90
Reinsurance contract assets				
Expected profit at inception "best estimate"				**200**
Risk margin at inception				15
Service margin at inception				185
Amortisation service margin	62	62	61	185
Amortisation risk margin	5	2	8	15
Expected profit over the period	**67**	**64**	**69**	**200**
Amortisation acquisition costs	30	30	30	90

- Simplified example with contract term of 3 years, without discounting and without administration costs
- Expected cash flows = actual cash flows
- Linear amortisation of service margin and of acquisition costs
- Actual claims are paid immediately

Agenda

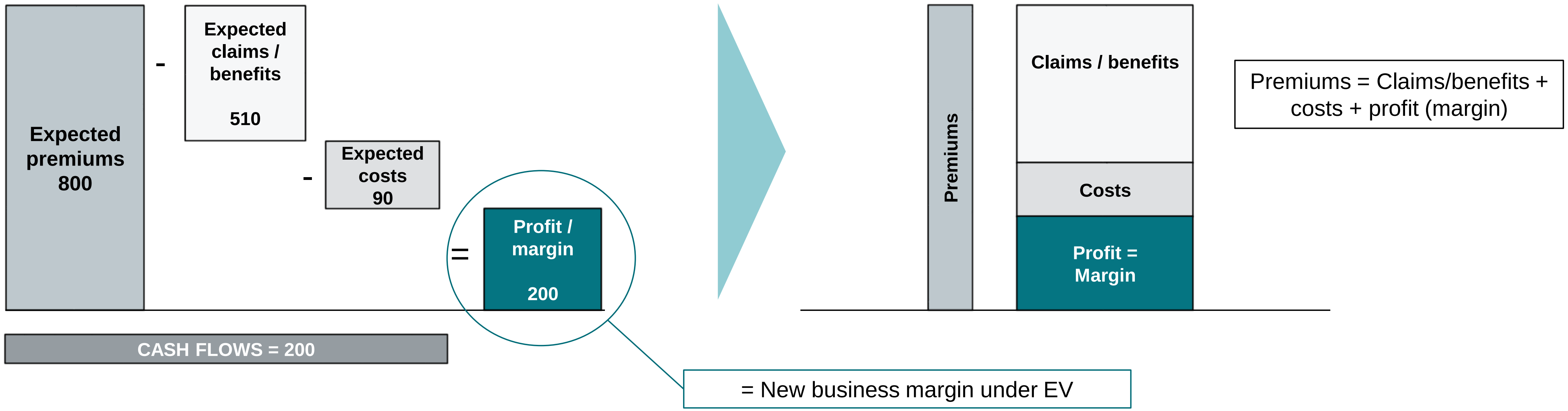
1. IFRS 17 – Overview
2. **Building Block Approach (BBA)**
3. Variable Fee Approach (VFA)
4. Premium Allocation Approach (PPA)
5. Disclosure according to IFRS 17
6. Summary of significant changes

IFRS 17
"Building Block Approach" (BBA)



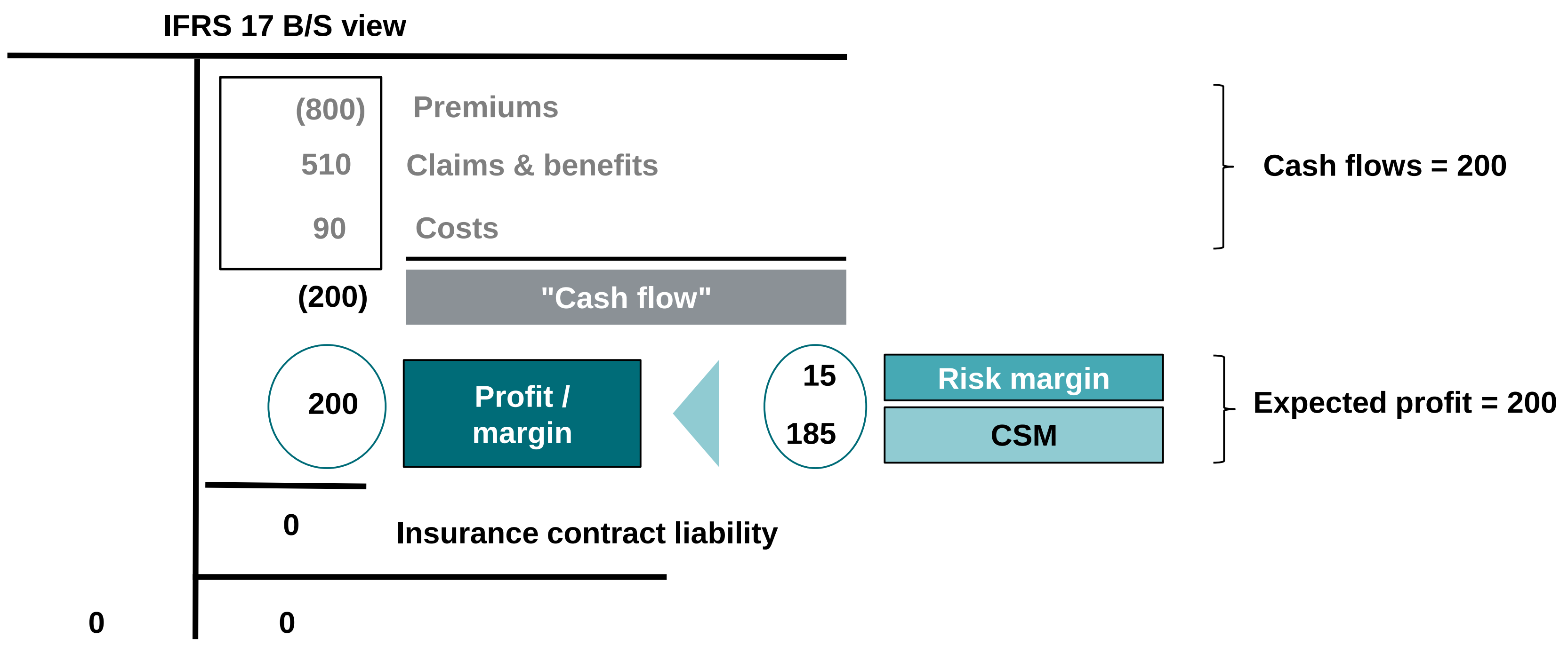
- General standard model used in order to calculate the business value of insurance contract liabilities
- Based on 4 building blocks

IFRS 17
"Building Block Approach" (BBA) - Principles



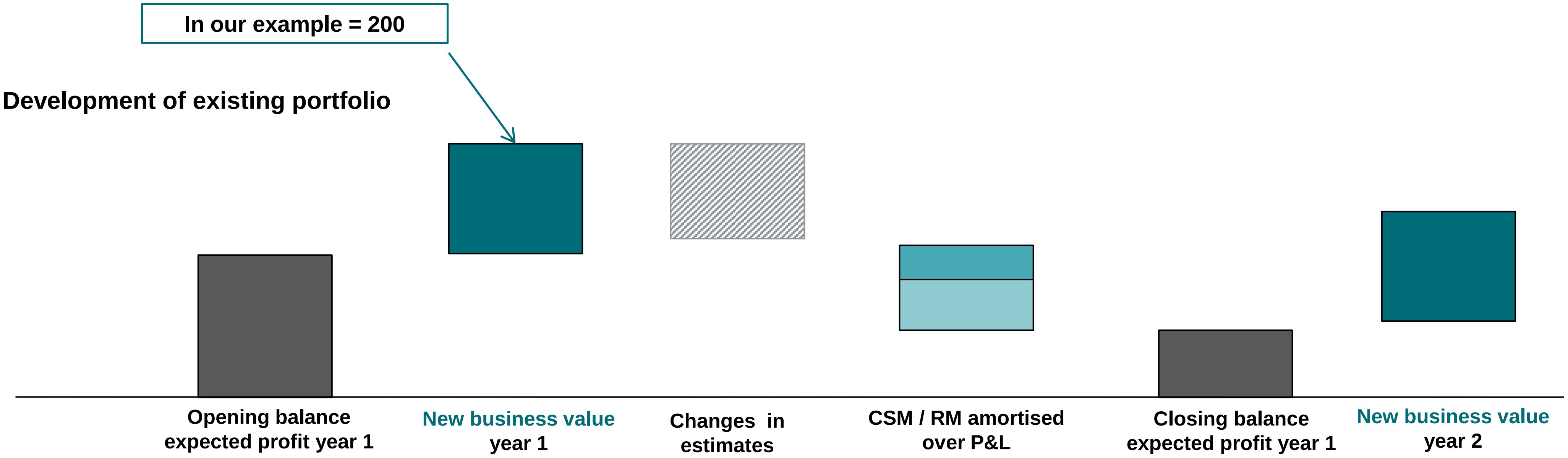
- BBA model is based on the assumption that premiums must cover claims & benefits, costs and the margin for the insurer
- "Building Blocks" are cash flows (premiums, claims & benefits); for new business those cash flows are being estimated for the duration of the contract in each period
- Expected profit equals the service margin the insurer gets for the provision of services
- *NB: all cash flows are being discounted; discounting component is seen as building block; in order to keep it simple in our examples cash flows are not discounted*

IFRS 17
BBA – Initial measurement insurance contract liability in the B/S



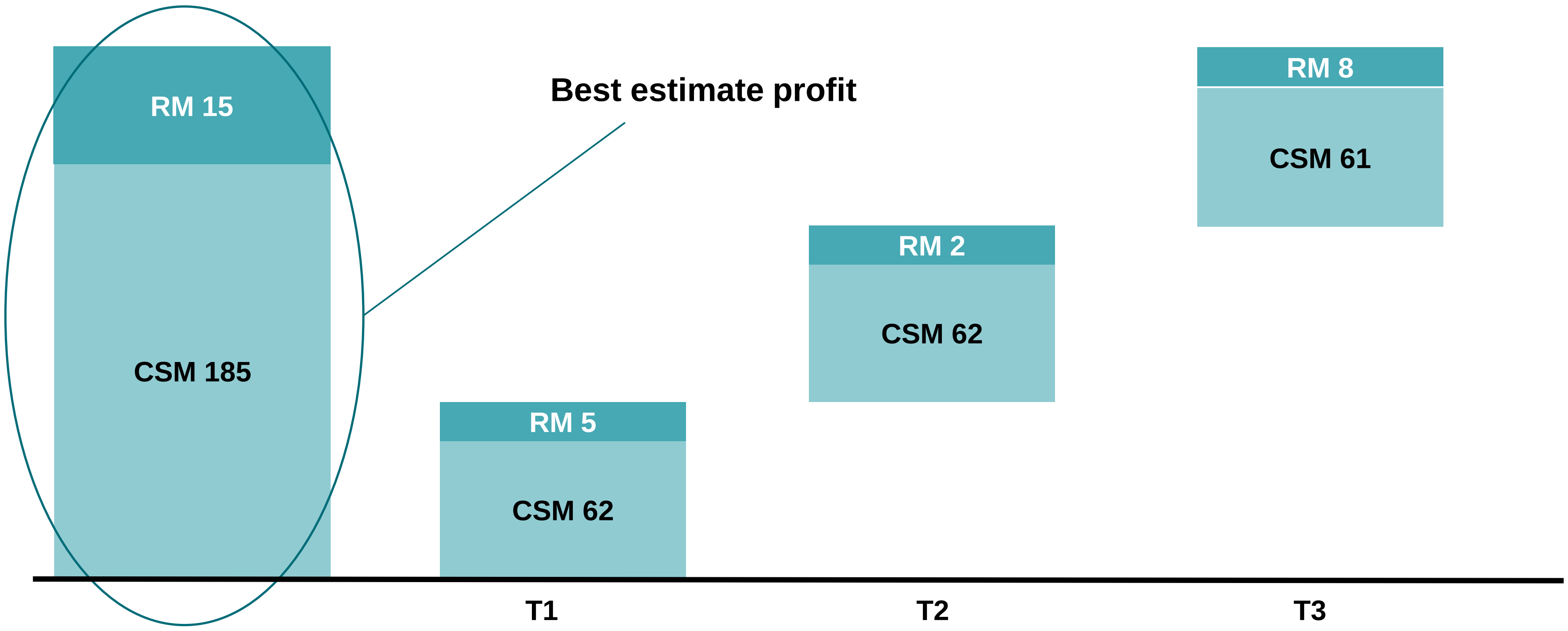
- All future cash flows are estimated by actuaries at inception of the contract as with today's EV; net cash flows equal expected profits
- At T=0 expected profits are recorded in the B/S and must be earned over time → at T=0 insurance contract liability = 0
- Future profit is split into a risk margin (buffer for uncertainties) and a "Contractual Service Margin", which equals the margin the insurer gets for its service provision
- Expected profits are being amortised over time in the P&L, revenues and profits should be recognised in the period in which the respective insurance services are provided

IFRS 17
BBA – subsequent measurement of expected profit in the B/S



- Expected profit reflects existing business; new business is added, existing old business is amortised over the P&L
- Changes in estimates (e.g. changes of initial estimates, induced by new information or experiences) are recognised in the balance sheet in the CSM and are being amortised in the P&L over the duration of the contract
- The CSM is a buffer to minimise volatility

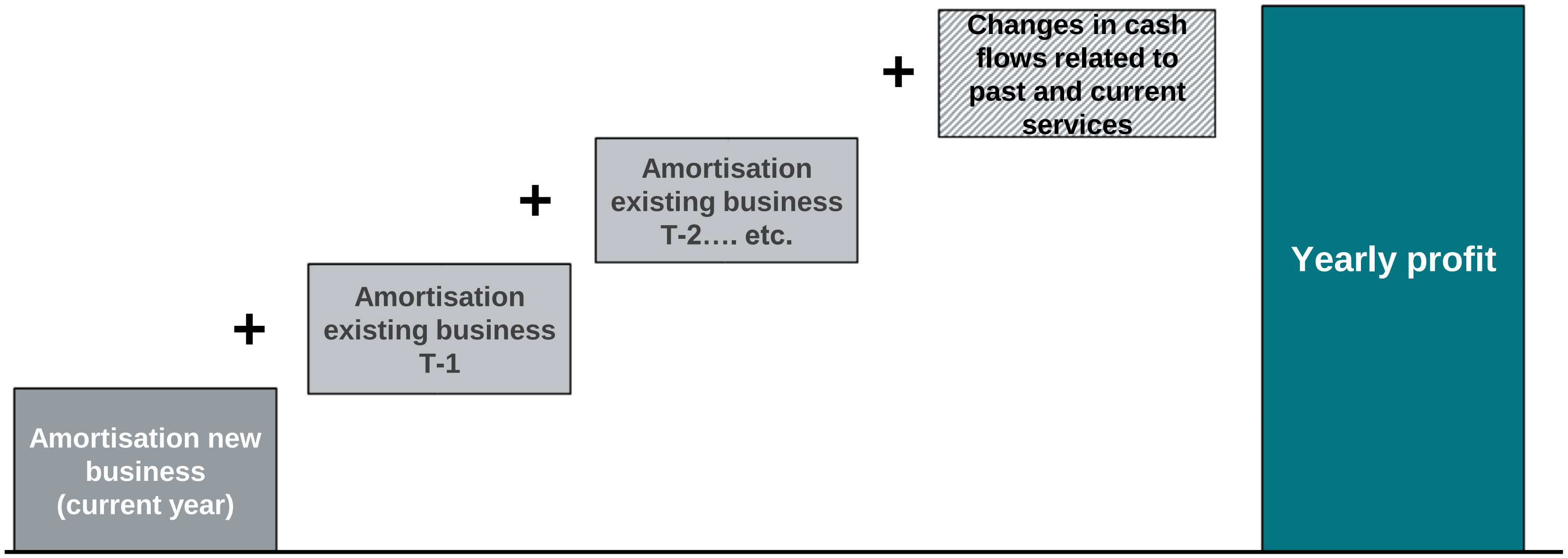
IFRS 17
BBA – release of CSM and RM



- CSM and RM correspond to the expected future cash flows at inception and therefore reflect the expected profit
- CSM is released over time (in our example on a linear basis)
- Risk margin will be released over the risk covering period (which can differ from contract duration period)

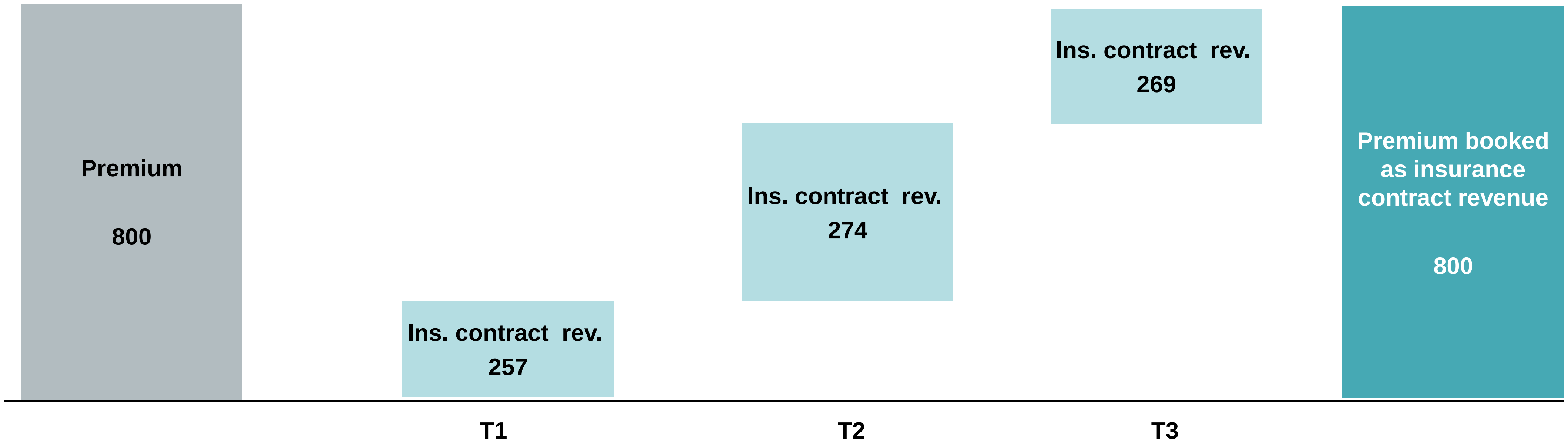
IFRS 17
P&L under IFRS 17

→ Detailed example p. 19



- The P&L includes the amortisation of expected profits of the new business in the current year as well as profits out of existing business from prior years
- Changes in cash flows related to past and current services are directly considered in the P&L
- NB: This reflects the underwriting result
- Under IFRS 17 the investment result and unallocated costs are disclosed separately

IFRS 17
P&L – Insurance contract revenue



- Today premiums are often booked as cash inflow without any insurance service being provided
- Thus cash inflows do not reflect a service provided by the insurance company
- Under IFRS 17 premiums excl. some savings components are therefore amortised over time in the P&L and recognised when they occur (depending on the occurrence of claims and services)

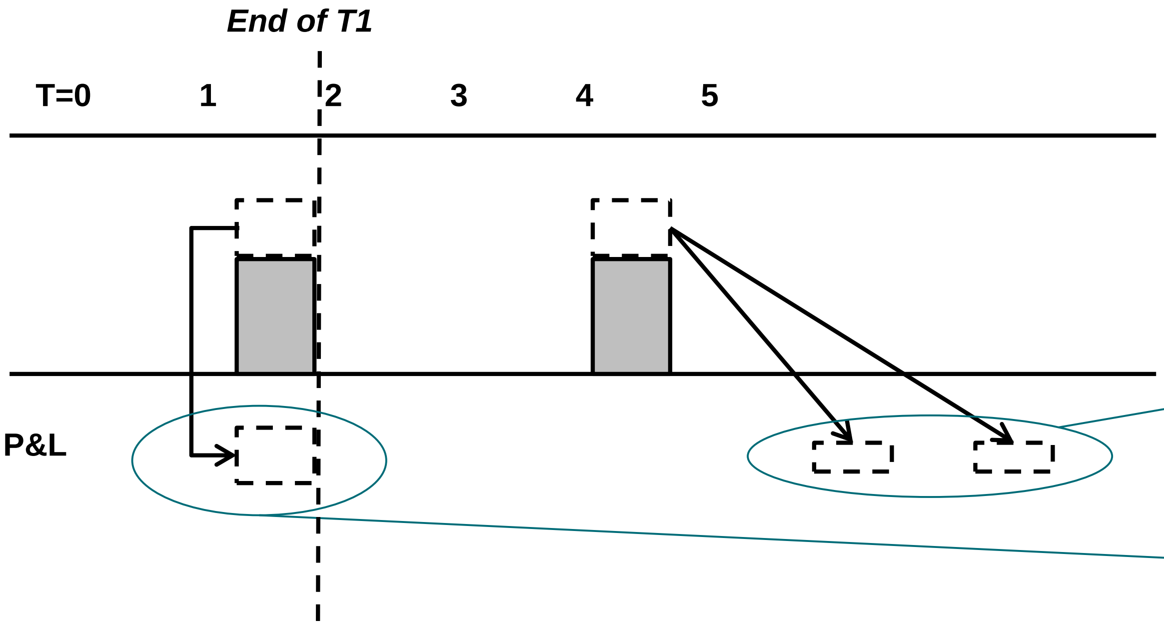
IFRS 17
Impact of changes - overview

Changes related to past and current services:
Actual results differ from initial estimates (experience adjustments)

- Booked directly in P&L

Changes related to future services:
Expected future cash flows differ from initial estimates (adjustment of estimates)

- Booked in the B/S → recognised in CSM
- Being amortised over time in P&L
  ➲ CSM as a buffer to minimise volatility
- *BUT if CSM <0 due to changes related to future services, loss will be immediately booked in P&L*



Changes related to future services are recognised in the B/S and are being amortised in the P&L over the duration of the contract (first amortisation directly in the current year)

Variations between actual figures and estimates are directly booked into P&L

IFRS 17
Case example*

	T1 (expected)	T2 (expected)	T3 (expected)	Total
Expected claims	160	180	170	510
Expected direct costs	30	30	30	90
Service margin	5	2	8	15
Risk margin	62	62	61	185
Insurance contract revenue	**257**	**274**	**269**	**800**
Claims	-160	-180	-170	-510
Direct costs	-30	-30	-30	-90
Insurance service expenses	**-190**	**-210**	**-200**	**-600**
Insurance service result	**67**	**64**	**69**	**200**

- Insurance contract revenue = earned premiums over the years, revenues are allocated according to expected claims / benefits
- Until now premiums were earned over the contract duration period as collected
- Insurance service result = risk margin + service margin
- Insurance contract revenue – insurance service expenses = risk margin + service margin

* Assumptions: see p. 9

IFRS 17
Alternative 1) Changes related to past and current services

Changes related to past and current services

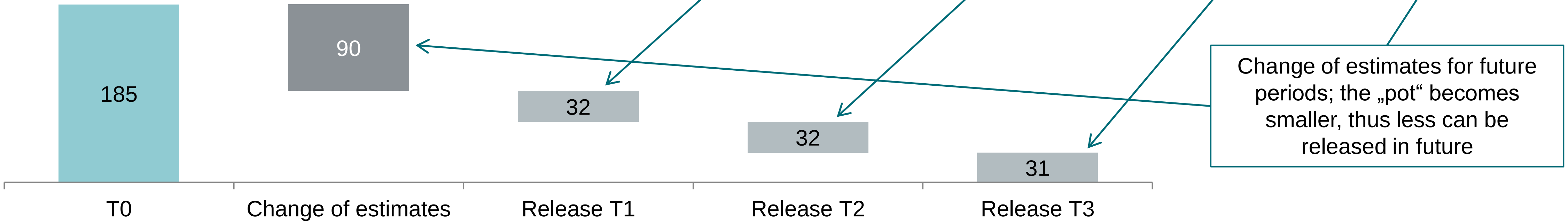
	T1 (incurred)	T2 (expected)	T3 (expected)	Total
Insurance contract revenue	**257**	**274**	**269**	**800**
Claims	-180	-180	-170	-530
Initially expected	*-160*	*-180*	*-170*	*-510*
Changes	*-20*			*-20*
Direct costs	-30	-30	-30	-90
Insurance service expenses	**-210**	**-210**	**-200**	**-620**
Insurance service result	**47**	**64**	**69**	**180**

- In T1 claims have increased by 20 compared to initial estimates
- Change in claims is directly considered in the P&L; claims increase from initially expected 160 to incurred 180
- Expected profit thus decreases from 200 to 180 (see p. 19)

IFRS 17
Alternative 2) Changes related to future services

CSM release in P&L	T1	T2	T3	Total
Expected CSM release at inception	62	62	61	185
Change of estimates				-90
CSM release after changes	**32**	**32**	**31**	**95**

Amortisation CSM in the B/S



- Based on today's assumptions claims will increase in the following two years by 90 in total (-45 for T2 and T3, respectively)
- In T1 all changes (-45 for T2 and -45 for T3 = -90) are booked in the CSM → CSM decreases from 185 to 95
- In the years T1, T2 and T3 CSM release is reduced due to the additional claims; expenses in the P&L are impacted only when changes occur (in T2 and T3), which helps to reduce volatility

IFRS 17
Insurance contract revenue after changes to estimates

	T1 initially expected	T1 after changes	T 2 initially expected	T2 after changes
CSM release	62	32	62	32
Risk adjustment release	5	5	2	2
Expected claims	160	160	180	225
Acquisition costs	30	30	30	30
Insurance contract revenue	**257**	**227**	**274**	**289**
Claims incurred	160	180	180	225
Acquisition costs	30	30	30	30
Insurance service expenses	**190**	**210**	**210**	**255**
Insurance service result	**67**	**17**	**64**	**34**

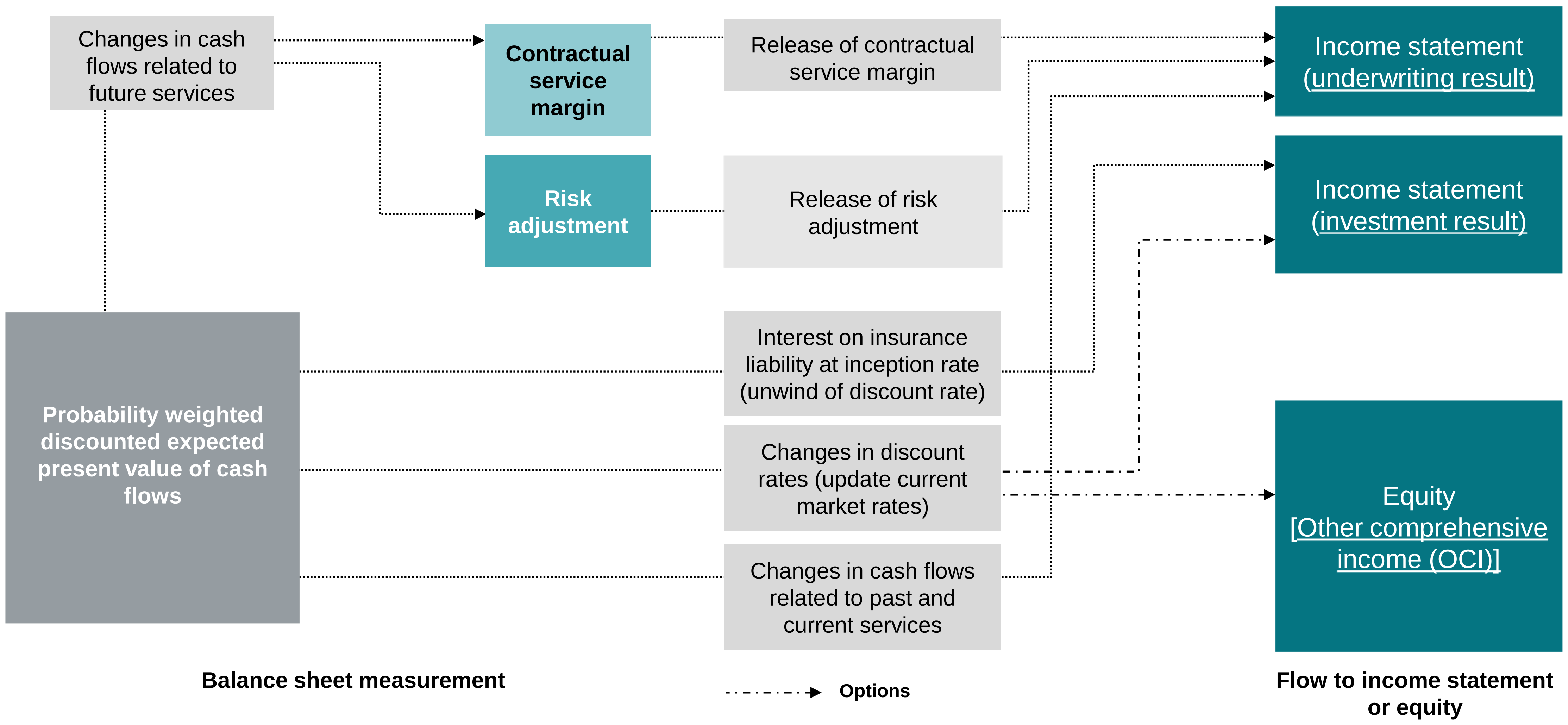
- Due to changes to the estimates for T2 and T3, CSM release in T1 reduces from 62 to 32, too (see p. 21); also, distribution of insurance contract revenue over the duration of the contract changes
- The overall insurance contract revenue over the three years remains unchanged

IFRS 17
P&L over three years for alternatives 1 and 2 combined

	T 1 (incurred)	T2 (expected)	T3 (expected)	Total	Initially expected profit
Insurance contract revenue	**227**	**289**	**284**	**800**	**800**
Claims	-180	-225	-215	-620	-510
Initially expected	*-160*	*-180*	*-170*	*-510*	
Changes related to past claims & services	*-20*			*-20*	
Changes related to future claims & services		*-45*	*-45*	*-90*	
Direct costs	-30	-30	-30	-90	-90
Insurance service expenses	**-210**	**-255**	**-245**	**-710**	**-600**
Insurance service result	**17**	**34**	**39**	**90**	**200**

- Following all changes, initially expected profit decreases to 90
- First, higher incurred claims than expected in T1 reduce profits by 20 (200-20 = 180) → see p. 20
- Changes related to claims in T2 and T3 reduce profits by an additional 90 (total profits after 3 years = 90) and are considered in the P&L in T2 and T3

IFRS 17
BBA: Revenue recognition – overview



Agenda

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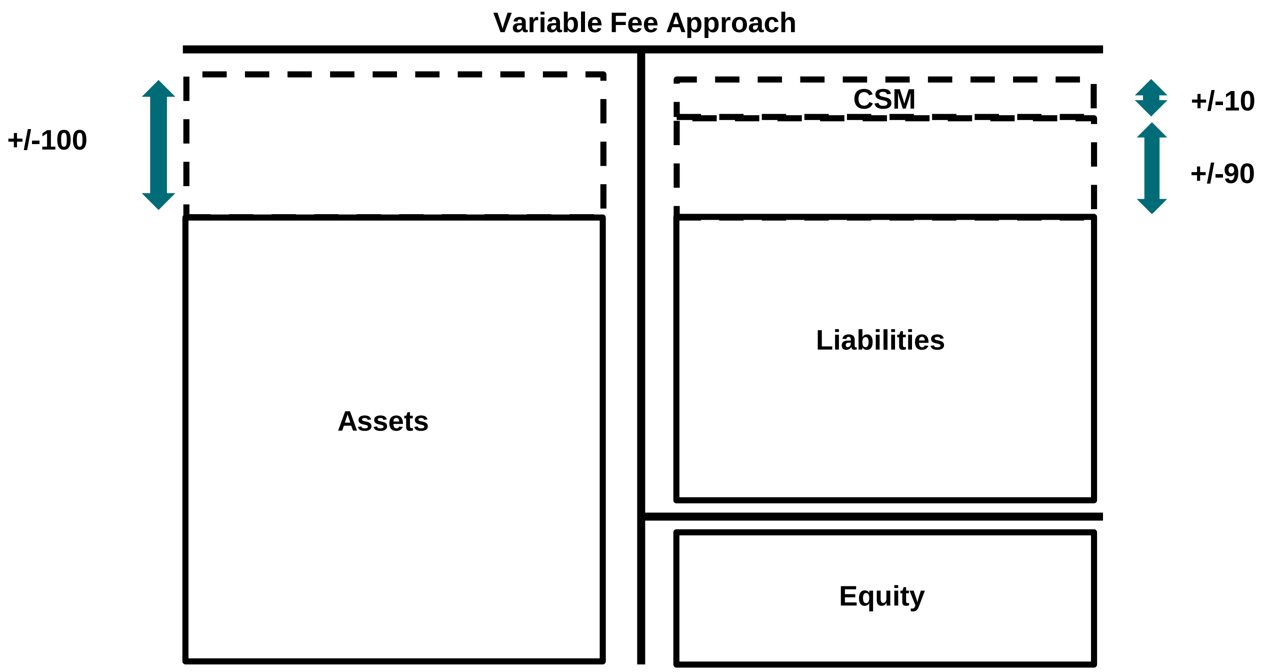
IFRS 17
"Variable Fee Approach" (VFA)



Fluctuations in market values as well as other changes relevant for policyholder bonuses are considered at a ratio 90:10 in liabilities (fulfilment value) and CSM

<u>Assumption:</u> Surpluses are distributed at a ratio 90:10 (Legal quota) between PH and shareholders

- Must be applied for “participating contracts” (e.g. occupational pension business)
- Helps to mitigate accounting mismatches → flexible approach
- Fluctuations in assets are booked in liabilities/CSM
- Matching of assets and liabilities

IFRS 17
Main differences between VFA and BBA

1 Initial measurement

Opening B/S

Bonds	100	20	CSM
		80	Reserves (Fulf. CF)
		0	Equity
	100	100	

Bonds increase from 100 to 110

Tabular overview of changes:

	BBA	VFA
Assets	10	10
Reserves (Fulf.CF)	9	9
CSM	-	1
P&L/OCI	1	-

2 Subsequent measurement

Building Block Approach
(90% PHP expected)

Bonds	110	20	CSM
		89	Reserves (Fulf. CF 80+9)
		1	Equity
	110	110	

➲ Direct impact on P&L/OCI

Variable Fee Approach
(90% PH participation)

Bonds	110	21	CSM (20+1)
		89	Reserves (Fulf. CF 80+9)
		0	Equity
	110	110	

➲ Changes in future fulf. CF & CSM
➲ Amortisation in P&L over time of contract

- Initial measurement: no difference between VFA and BBA
- Subsequent measurement: Increase in bonds is split at a 90:10 ratio between policyholders and shareholders
- The increase of 9 attributable to policyholders increases reserves, the increase of 1 attributable to shareholders is recognised in the CSM according to VFA; according to BBA the increase is recognised in equity (via P&L)
- According to the VFA there is no direct impact on the P&L, CSM is being released over the contract period
- According to VFA discounting rate equals current interest rate; according to BBA discounting rate equals locked in rate at inception (difference between locked in interest rate and current interest rate can optionally be recognised in P&L or OCI)

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Agenda

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IFRS 17
Simplified model (PAA) and changes in NL business

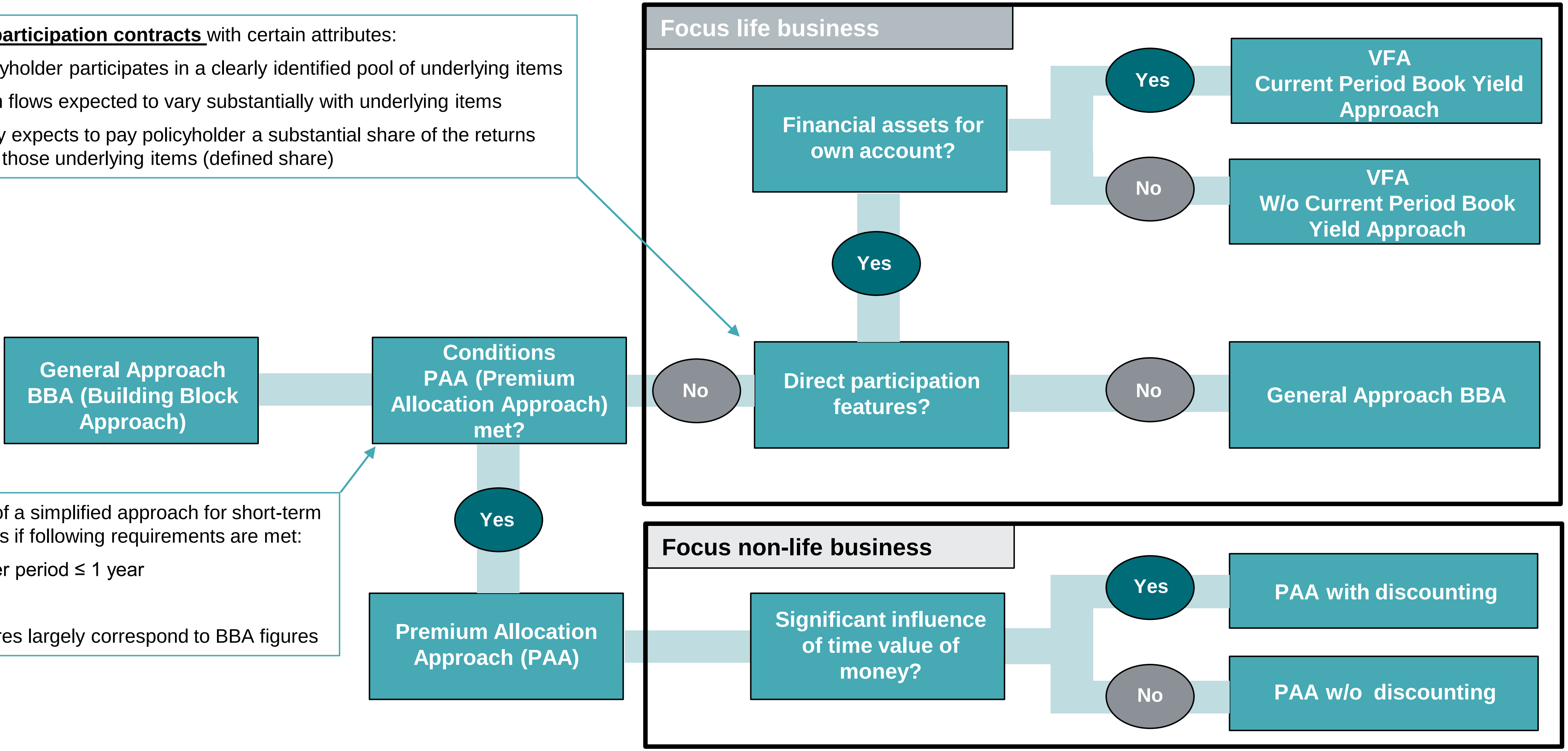
<table>
<tr><th></th><th>IFRS 17</th><th>IFRS 4</th><th>IFRS 17</th></tr>
<tr><td>Premiums</td><td>– Gross written premiums (GWP) not posted in P&L
– But disclosed as additional information in the notes to the financial statements
– New: insurance contract revenues</td><td>– Shown in the P&L – in order to present business volume development</td><td>~</td></tr>
<tr><td>P&L calculation</td><td>– Similarities regarding technical basis: Tech. result = insurance revenues – incurred claims – costs
– But: claims reserves discounted and explicit risk adjustment
– “Revenue" does not exactly correspond to the earned premiums (interest)</td><td>– Tech. result = earned premiums – incurred claims – costs
– Claims reserves on nominal basis and normally only implicit risk adjustment</td><td>~
+</td></tr>
<tr><td>Profit realisation</td><td>– No change for contracts with short duration</td><td>– As incurred
– No difference between long-term and short-term business</td><td>~</td></tr>
<tr><td>Combined ratio</td><td colspan="2">– No change (slightly more accurate under IFRS 17 due to more precise calculation of ‘unearned premiums’ or liability for remaining coverage, respectively)</td><td>+</td></tr>
<tr><td rowspan="2">Reserves</td><td colspan="2">– No change – actuarial assumptions additional to assumptions from claims department</td><td>~</td></tr>
<tr><td>– Discounted → Time value of money
– Risk margin as additional buffer
– Higher transparency due to disclosure of changes in estimates (only partially under PAA)</td><td>– <u>Not</u> discounted
– Risk margin included in reserves
– Transparency via loss triangles and run-off details</td><td>+</td></tr>
</table>

- Simplified model, so called. "Premium Allocation Approach" (PAA), almost identical to traditional NL model → can especially be used for NL contracts with short duration (<12 months)
- Long-term contracts should be measured according to BBA

IFRS 17
Summary BBA/PAA/VFA – decision tree

Direct participation contracts with certain attributes:

- Policyholder participates in a clearly identified pool of underlying items
- Cash flows expected to vary substantially with underlying items
- Entity expects to pay policyholder a substantial share of the returns from those underlying items (defined share)



Option of a simplified approach for short-term contracts if following requirements are met:

- Cover period ≤ 1 year

  or

- Figures largely correspond to BBA figures

Agenda

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IFRS 17
Balance sheet according to IFRS 17

	2016	2017
Financial assets		
Property and equipment		
Goodwill and other intangible assets		
Insurance contract assets		
Reinsurance contract assets		
Cash and cash equivalents		
Total assets		
Total equity		
Insurance contract liabilities		
Reinsurance contract liabilities		
Non-technical provisions		
Total liabilities and equity		

- All estimated future cash flows are recognised in the balance sheet – but netted and disclosed in one balance sheet item
- All traditional balance sheet items are included in the balance sheet – actuarial reserves, unearned premiums etc., but being disclosed under the balance sheet item **“Insurance contract liabilities"**

Disclosure IFRS 17
Main elements of P&L

	2016	2017
Insurance contract revenue (= “earned premium”, excl. some savings components)		
Insurance service expenses (incurred claims / benefits / direct costs)		
Insurance service result		
Investment income		
Insurance finance expenses		
Net financial result		
Indirect costs		
Other income / expenses		
Profit before tax		
Taxes		
Profit after tax		

- Separate disclosure of underwriting result (insurance service result) and net financial result
- Costs are allocated to the underwriting result (insurance service result) and the non-technical result

Agenda

IFRS 17
Summary of significant changes (1/2)

	IFRS 17	IFRS 4	IFRS 17
Premiums	– Not disclosed in the P&L, disclosed as additional information in the notes to the financial statements – Savings components not shown as revenues	– Important element of P&L – Premiums include savings component and single premiums (distorts revenues)	+
Calculation in P&L	– Present value of expected cash flows (similar to EV) – Additional disclosure of changes to initially estimated cash flows of the prior year	– Premiums - claims - costs – No differentiation between new business and existing portfolio	+
Recognition in P&L	– Profit (NPV CFs) recognised in P&L over time – Clear differentiation between new business and existing portfolio – Changes in future estimates amortised in P&L over the contract period → reduces volatility – Risk margin absorbs volatility	– As incurred – No differentiation between new business and existing portfolio – Changes in future estimates directly recognised in P&L	+

IFRS 17
Summary of significant changes (2/2)

	IFRS 17	IFRS 4	IFRS 17
Asset / Liability matching	– Matching P&L and investments, discounted reserves reduce volatility in P&L and B/S (positive impact on RoE) – Matching for direct participation products (BVG)	– Volatility as only assets are measured at fair value, and not reserves – Matching possible	+
Solvency	– Much closer to Solvency	– No linkage to Solvency	+
Steering of the business	– Allows separation of existing business and new business – Linkage to Solvency → EV no longer needed	– Additional valuation metrics necessary, e.g. EV – Differences between IFRS, Solvency & EV	+
Combined ratio	– New: calculation of combined ratio for life business possible	– No combined ratio for life business	+
Profit by sources	– No changes		~
TVOG	– Economic valuation of assets and liabilities incl. time value of options and guarantees (TVOG) implicitly considered in the valuation model		+

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