

Ergebnisbericht des Ausschusses Ausschusses Rechnungslegung und Regulierung (Report on findings of the Accounting and Regulation Committee)

Aktueller Marktüberblick über ausgewählte Steuerungskennzahlen unter IFRS 17 (Current market overview over selected KPIs under IFRS 17)

Köln, 26. Februar 2024

Präambel

Die Arbeitsgruppe *IFRS* des Ausschusses Rechnungslegung und Regulierung der Deutschen Aktuarvereinigung e. V. (DAV) hat den vorliegenden Ergebnisbericht erstellt.¹

Zusammenfassung

Dieser Bericht gibt einen aktualisierten Überblick über die sich derzeit entwickelnde Marktpraxis für ausgewählte Key Performance Indicators (KPIs) unter dem neuen Regime von IFRS 9 und IFRS 17 aus aktuellen Veröffentlichungen einiger Versicherungsunternehmen mit Relevanz für den deutschen Markt und betrifft Aktuare, die IFRS-Abschlüsse erstellen, prüfen oder auswerten. Die ausgewählten KPIs beziehen sich auf die Contractual Service Margin (CSM), Return on Equity (RoE) und Combined Ratio (CoR). Diese wurden in den jüngsten bis Ende Oktober 2023 erschienenen Veröffentlichungen von Allianz, Axa, Generali, Hannover Re, Munich Re, Talanx und Zurich (unser "market sample") analysiert.

Der Anwendungsbereich umfasst die Verträge, die unter den internationalen Rechnungslegungsstandard IFRS 17 *Insurance Contracts* fallen. Die Anwendung von IFRS 17 ist für nach IFRS berichtende Konzerne ab 1.1.2023 verpflichtend.

Der Ergebnisbericht ist an die Mitglieder und Gremien der DAV zur Information über den Stand der Diskussion und die erzielten Erkenntnisse gerichtet und stellt keine berufsständisch legitimierte Position der DAV dar.² Für mehr Hintergrundinformationen verweisen wir auf den Ergebnisbericht "P&C KPIs und Steuerung unter IFRS 17" des Ausschusses Rechnungslegung und Regulierung vom 13. Mai 2022.

Verabschiedung

Dieser Ergebnisbericht ist durch den Ausschuss Rechnungslegung und Regulierung am 26. Februar 2024 verabschiedet worden.

¹ Der Ausschuss dankt der Unterarbeitsgruppe *KPI* der Arbeitsgruppe *IFRS* ausdrücklich für die geleistete Arbeit, namentlich Thorsten Ante, Dr. Robert Bahnsen (Leitung), Jan-Christoph Köhler, Reinhard Lenz, Dr. Claudio Schmidt-Wegenast, Ulrike Schwarz, Dr. Thorsten Wagner. Die Inhalte dieses Ergebnisberichts stellen deren persönliche Meinung dar, nicht die ihres jeweiligen Arbeitgebers.

² Die sachgemäße Anwendung des Ergebnisberichts erfordert aktuarielle Fachkenntnisse. Dieser Ergebnisbericht stellt deshalb keinen Ersatz für entsprechende professionelle aktuarielle Dienstleistungen dar. Aktuarielle Entscheidungen mit Auswirkungen auf persönliche Vorsorge und Absicherung, Kapitalanlage oder geschäftliche Aktivitäten sollten ausschließlich auf Basis der Beurteilung durch eine(n) qualifizierte(n) Aktuar DAV/Aktuarin DAV getroffen werden.

Preamble

The Working Group *IFRS* of the Accounting and Regulation Committee of the German Association of Actuaries (Deutsche Aktuarvereinigung (DAV) e. V.) has issued the following report on findings to the topic IFRS 17 for German insurance.³

Issue

This report deals with an updated overview of the current evolving market practice for selected key performance indicators (KPIs) under the new regime of IFRS 9 and IFRS 17 from recent publications of some insurance entities with relevance for the German market and concerns actuaries that prepare, audit or analyze IFRS financial statements. The selected KPIs relate to Contractual Service Margin (CSM), Return on Equity (RoE) and Combined Ratio (CoR). They have been analysed in the recent publications of Allianz, Axa, Generali, Hannover Re, Munich Re, Talanx and Zurich (our "market sample") which were disclosed until end of October 2023.

This report addresses contracts that are subject to the international financial reporting Standard IFRS 17 *Insurance Contracts*. The application of IFRS 17 is compulsory for group reporting under IFRS after 1st January 2023.

The report is addressed to actuaries and is focused on providing an overview of the current state of discussions and the insights gained in the sub-working group. It is not a professional position of the DAV and is meant to support actuaries in actuarial teams. For more information, please refer to the findings report "P&C KPIs for and steering within IFRS 17" of the Accounting and Regulation Committee dated 13 May 2022.

Adoption

The report on findings was adopted by the DAV's Accounting and Regulation Committee on 26.02.2024.

³ The Committee would like to explicitly thank the sub-working group KPI/steering of the working group IFRS for their work, by name Thorsten Ante, Dr Robert Bahnsen (lead), Jan-Christopher Köhler, Reinhard Lenz, Dr Claudio Schmidt-Wegenast, Ulrike Schwarz, Dr Thorsten Wagner. The content of this report represents their personal opinion, not that of their respective employer.

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Introduction

In this report we present the results of our updated analysis of 7 recent publications including the publications for half-year 2023 of our market sample about IFRS 9 & IFRS 17 from an actuarial point of view. For the sake of speed and relevance in such a dynamic disclosure environment we have limited our analysis to three main KPI blocks related to:

- Contractual Services Margin (CSM)
- Return on Equity (RoE)
- Combined Ratio

Our analysis is structured in the following way: First we give a kind of summary of the observed disclosures around the KPI under consideration. Then we identify and discuss commonalities and differences within our market sample. Each chapter closes with a summary or conclusion and an outlook on future developments.

The purpose of our KPI analysis is to provide some overview and guidance to understand and evaluate the differences of the several definitions of the disclosed KPIs so far and hence also help to increase comparability and usefulness of disclosures on IFRS 9 & IFRS 17. Where deemed helpful, we also make suggestions for new, hopefully useful KPIs. In this update, we have included recent developments from publications from half-year 2023. In summary, there are no major changes but more a further evolvement and refinement of initial concepts.

1. KPIs related to Contractual Service Margin (CSM)

We take a look at the KPIs related to the CSM, which is one of the main items in the balance sheet of every user of the General Measurement Model (GMM) or the Variable Fee Approach (VFA). Since the CSM as kind of a future profit storage from insurance contracts itself is one of the main KPIs under IFRS17, there are on the one hand many influences on the CSM, and on the other hand many effects arising from the CSM which should be discussed more in detail.

1.1. CSM Analysis of Change

Starting with a review of some publications in the german market we see a quite similar analysis of change of the CSM, which is the base of our further discussion. What we see in more or less detail is the following:

- (1) CSM Opening
- (2) + CSM of new business
- (3) + CSM Unlocking⁴
- (4) Release of CSM
- (5) = CSM Closing

CSM Opening (1) and CSM Closing (5) are the item of the balance sheet at the beginning and at the end of a reporting period. They show the amount of the expected future profit from insurance contracts in force. Thus, the CSM itself is a strong KPI under IFRS17.

First interesting insight is, that so far only few entities present the CSM under VFA and GMM separately, although the effects and calculation may differ significantly. Also, there is no separate presentation of gross or ceded business. Some insurers report the CSM Analysis of change net of reinsurance ceded.

⁴ This point is also known or described as "CSM Adjustment" or "CSM Recalibration"

While the CSM Closing (5) in detail consists of different blocks, some entities give us a deeper view in the components of the CSM, which is further discussed in chapter 1.2.

The CSM of new business (2) is a line item just as common as the Release of the CSM (4) in every publication. Most entities mention it as New Business CSM while some mention it as CSM at inception, but the meaning is identical. While the CSM of new business (2) represents the value of CSM gained by new contracts, it also shows the growth of a set of insurance contracts, or even more the profitability of the additional contracts to the collective. But in respect to the idea of profitability of new business we observe some differences among the new publications. A deeper look on this topic is shown in the chapter below.

The value of the New Business CSM may differ significantly on the base of management. Thus, the CSM of new business (2) and the thereby influenced New Business Values and Margins may be arising as strong KPIs, too, giving a nice possibility of comparing the success of new business.

Now we are coming to the point in which the publications differ by far the most, the CSM Unlocking (3). What we see are different levels of details and differences in the separation and presentation of several effects. As an overview, we try to sort the effects we recognised so far:

- the interest accretion, sometimes also described as unwind of discount. Most entities also add the over-return from inforce business under the VFA, meaning the amount of capital market return above the rate used for the valuation of the CSM.
- the economic variance, which is an indicator for experience in the reporting period and/or changes in assumptions for the future of some economic measures, especially capital market assumptions. It is sometimes also described as impact of changes in the entity share of the Fair Value of underlying assets, which only appears in the VFA. It may be also mentioned that some entities show here the interest accretion we already mentioned above, also.
- the operating variance, which is an indicator on the one hand for the difference between estimate and actual in the current reporting period and on the other hand changes in assumptions for future service.

The entities neither follow an identical definition of the mentioned effects nor do they use the same separation of the effects at all. It is even more difficult, because sometimes the different effects are mentioned under the same headline. For sure, all of the entities have similar effects, but so the presentation differs significantly. Thus, the publications are not only difficult to read and compare but also the identification of a KPI in this measure is, from the current point of view, nearly impossible.

But there are two points on the CSM Unlocking (3), which will be interesting to look at in the future and in comparison between the entities for sure:

- does the effect enlarge or shrink the CSM?
- How large is the value in comparison of the CSM Opening (1)?

Both information could be an indicator for how unbiased the IFRS17 results are modelled or how the underlying economics influence the CSM, too.

Now coming to the Release of the CSM (4), we have a look at the main influence on the net technical result of the entities under IFRS17. The release itself depends mainly on two factors:

- the CSM before Release
- the earning pattern based on quantities of benefits measuring the service provided in the period.

Thus, the Release of CSM (4) is following strict rules of calculation and hence difficult to steer. Specially the earning pattern will differ between entities with the duration and the age of the contracts, which makes it depending very much on the structure of the business in-force.

Nevertheless, some factors relating to the Release of the CSM (4) might be very interesting in terms of possible KPIs. For example, the Release of CSM (4) divided by the CSM before Release (1) + (2) + (3) as a Release factor is mentioned in a few of the publications and might be an interesting indicator for future CSM Releases. For more details on this topic, we refer to chapter 1.2.

1.2. Special Values on CSM

Some potentially interesting values were discussed only by very few entities:

- Loss Component as a value only arising, if a group of contracts becomes onerous, not all entities may have a Loss Component and thus, they are not reporting it. Nonetheless the Loss Component is giving the reader much information about the profitability of the affected contracts.
- New Business Value (NBV) some companies define a New Business Value just as New Business CSM as discussed above, and some also add a value of future profits of shortterm newly issued contracts during the period, which are measured under PAA and thus have no CSM. Others want to show a more economic view in their NBV and start with the New Business CSM and then reduce it, depending on the definition of each company, for example by
 - Non-directly attributable costs/expenses
 - o Taxes
 - o Cost of reinsurance ceded
 - o Minority interests
 - o Scope/other
- New Business Margin defined as the New Business Value divided by the (expected) Present Value of New Business Premiums (PVNBP) including the impact from future decrements like lapse, death etc. This leads to a New Business Margin (NBM). Hence the NBM is very much depending on the various definitions of the NBV and thus difficult to compare.
- Growth Value there are different ways of trying to somehow define a Growth Value of the insurance business under IFRS17, for example:
 - CSM New Business vs Release of CSM
 - CSM BoP vs. CSM EoP
 - A "normalized" CSM Growth Factor comparing the CSM BoP with the CSM EoP but without changes of economic and operating variances mentioned above
- Release Ratio of CSM Some entities report the Ratio of the Release of CSM in comparison to the CSM before Release. Some other give us at least some ranges where they expect the ratio to be in between.⁵ Even if the Ratio is not given, it is quite easy to calculate with the information we get.
- CSM net the CSM is only representing the expected profit of the insurance contracts and not the expected future net income before tax. What we see is one entity trying to break down the CSM to a so called CSM net, representing the expected future operating result. The adjustments to get from the IFRS 17 CSM to a "CEM net" comprise scope issues (i.e., profitability generated by PAA business and investment contracts not classified under IFRS 17 as well as reinsurance) and other items like expected future expenses not attributable to IFRS 17 valuation, tax effects and the impact on minorities. Such adjustments have also been reflected by several other entities in the context of defining the VNB =

⁵ These vary between 4% and 11%.

Value of New Business, i.e., the VNB is defined not only by the CSM of the New Business but also by such adjustments as described above. A very interesting measure in terms of real profitability.

1.3. Summary on CSM related KPIs

All in all, the CSM is a strong KPI itself. In terms of transparency under IFRS17 it represents the value of the insurance contracts in force, so this conclusion is not surprising, as well as the loss component.

Also, the New Business Value depends very much on the CSM of new business and the various definitions of further individual deductions. As a value for success of new business and as manageable measures, both, the New Business Value and the CSM of new business have great potential to be strong KPIs under IFRS17. And in the end, it is mainly affecting the growth of the CSM, too.

Finally, there are some possible candidates for KPIs we have not seen in the publications so far but would be useful for a user potentially.

For example, a factor dividing the operating result by the release of the CSM could show us, how much of the generated profits from insurance business will arrive at the net income before tax. This ratio might be impacted by both recurring items like overhead expenses, one-off items like restructuring expenses or tax effects on segment or group level. In combination with the CSM release factor we mentioned above, one could easily assume a pre-tax net income result with just looking at the CSM and using the two mentioned factors (or both combined as some kind of "CSM Result Factor") as thumb rule. These thoughts are close to the CSM net from chapter 1.2. The future will show us some further newly invented KPIs for sure.

2. KPIs related to Return on Equity (RoE)

This KPI, specifically, is not only impacted by the new reporting under IFRS 17 but also by the simultaneously new reporting under IFRS 9.

In contrast to many other KPIs, the RoE already existed in the publication framework before 2023. We do now see a reporting diversity in practice.

While some Groups fully refrain from an ongoing RoE reporting under the new standards, others present a variety of RoE figures, either per business segment or e.g. with different numerators. Entities still use RoE to steer their lines of business and as well as a compensation measurement for senior management.

The definitions mostly remain unchanged. However, in detail changes of the introduction of both IFRS 9 an IFRS 17 occur.

Overall, the RoE is simply defined as **net income divided by average equity**. However, all entities adjust this definition to take specific aspects into account, mostly regarding the numerator.

The following updated definitions have been announced so far and for the very most part do not differ from the definitions as of today.

While the denominator will remain very similar i.e., the average (adjusted) Shareholders' Equity, there are differences in defining the numerator.

1. In the first case, the RoE is calculated as underlying earnings net of financial charges related to undated and deeply subordinated debts divided by the average of opening and closing shareholders' equity excluding the reserves relating to the change in the fair value through shareholders' equity and undated and deeply subordinated debts.

 $RoE = \frac{Underlying \ Earnings}{Average \ Shareholders \ Equity \ (excl. \ OCI)}$

Here, the Underlying earnings represent the net income (Group share) net of policyholder participation, Deferred Acquisition Costs, Value of Business in force, taxes and minority interests. The impact of the following items is also excluded:

- realized gains and losses, change in impairment valuation allowances (on assets not designated under fair value option or trading assets) and cost at inception, intrinsic value and pay-off of derivatives used for the economic hedging of realized gains and impairments of equity securities (other than the funds backing contracts where the financial risk is borne by policyholders);
- profit or loss on financial assets accounted for under fair value option (excluding assets backing liabilities for which the financial risk is borne by the policyholder), foreign exchange impacts on assets and liabilities, and derivatives related to invested assets and liabilities;
- impairments of goodwill, impairments and amortization of intangibles related to customers and distribution agreements;
- integration and restructuring costs related to newly acquired entities as well as restructuring and associated costs related to productivity improvement plans; and
- exceptional operations (primarily changes in scope and discontinued operations)

Under IFRS 9 / IFRS 17, there is no change in definition found in the recent publications although parts of the input will be affected (e.g. disappear) by using the new IFRS Standards.

2. The next definition is as follows

$$RoE = \frac{Net \ result}{Average \ adjusted \ equity}$$

The net result is calculated on the basis of the Group's net income including the result attributable to non-controlling interests whereas the average shareholders' equity is adjusted for the fair value reserve, the insurance finance reserve, foreign currency translation reserve and gains/losses form cash flow hedges.

3. The next entity uses the following definition

$$RoE = \frac{Group \ net \ income}{Average \ equity}$$

The definition is not affected by the introduction of IFRS 9 / IFRS 17. In this case, the group net income is expected to increase while the average equity is likely to decrease based on the introduction of CSM. This results in a significantly higher RoE.

4. Besides the before mentioned definitions, one entity uses adjustments as follows

$$RoE =$$

Business operating profits after tax (BOPAT)

Average of adjusted shareholder' equity (i.e. adjusted for net unrealized gains or losses and cash flow hedges)

In the past, the Shareholders' equity used to determine this KPI has been adjusted for unrealized gains/losses on available-for-sale investments and cash flow hedges. By introducing IFRS 17 / IFRS 9, the adjustment is made for unrealized gains and losses of both assets (FVOCI) and liabilities and cash flow hedges. This implies an increase in RoE due to the changes in Shareholders' equity as defined.

In general, entities are reporting a moderate increase in RoE (of 2.5 to 4%-pts.) which is twofold, due to a lower Shareholders' Equity compared to today and an increase in earnings. The lower Shareholders' Equity is a result of the introduction of the CSM to represent a significant part of the future profits.

The equity is expected to be more stable going forward. This evaluation applies to both the group view and the divisional perspective.

3. KPIs related to Combined Ratio (CoR)

Besides the before mentioned KPIs, we have analysed the recent publications of our "market sample" with respect to "combined ratios".

They all have in common, that these Insurance Groups define the combined ratio based on the new P&L figures of IFRS 17, especially taking the insurance revenue (IR) as denominator and the insurance service expenses (ISE) as enumerator. However, for the exact definition and differences therein, we will come back later to that topic.

At first, we would like to discuss the consequences of referring now to IFRS 17 figures:

- Whenever claims incur, but are not settled, a claim reserve (Liability for incurred claims) including discounting of claim settlement cash flows and including a risk adjustment is recognized in the balance sheet. Therefore, the expenses shown in the ISE are reduced due to discounting but increased due to the risk adjustment. Within the settlement period of those claims, ...
 - ... the discounting leads to an insurance finance expense which is, however, not part of the ISE and therefore does not contribute to the combined ratio. The effect of discounting claim reserves on the combined ratio is positive (i.e., a smaller combined ratio).
 - ... the risk adjustment will be released as negative expenses within the ISE. The total effect of the risk adjustment over all years (AY plus settlement period) is therefore equal to zero but there is a timing difference between periods. Assuming a kind of "steady state" for a grown portfolio, the effect on the combined ratio would be therefore negligible; however, for a portfolio which is still significantly growing, the expenses for building a risk adjustment for new claims incurred and accounted for in the LIC would be higher than the income (i.e. negative insurance service expense) resulting from the release of risk adjustments for the LIC built for claims incurred in the past.
- Some insurance contracts contain non-distinct investment components (NDIC) which are
 not separated but measured for as part of the insurance contract liabilities. However,
 IFRS 17 requires the non-distinct investment component to be excluded from insurance
 revenue and insurance service expenses within the P&L. Therefore, IR and ISE may differ significantly from premiums and claims & expenses, respectively, probably more in
 reinsurance than in primary insurance. In any case, this may have a corresponding impact on the CoR⁶.
- The treatment of acquisition costs in IFRS 17 may deviate from previous practice and may have an impact on the CoR:
 - When applying the option of IFRS 17.59(a)⁷ all acquisition costs will be reflected implicitly in the CoR when incurred and therefore increase the CoR compared with a kind "pro-rata-temporis" recognition of acquisition expenses where, similarly to the risk adjustment, the net effect on ISE depends on whether the business is increasing or decreasing.
 - IFRS 17.28A/28B/B35A constitute a kind of deferral accounting for acquisitions costs which are (partly) allocated to renewals which would not be part of the contract boundary cash flows of the existing business. Therefore, also this deferral of acquisition costs might have an impact on the ISE as well as on the IR (on IR: only when PAA has not been chosen) and therefore on the CoR, depending on the methodology defined individually for such an allocation of acquisition costs to

⁶ Example: Assume a premium income of 100 and claims & expenses of 95 as well as NDIC (on premiums as well as on claims) of 10. Not considering the NDIC in IR and ISE as a reduction would yield a CoR of 95 / 100 = 95%. However, IFRS 17's definitions reduce IR and ISE correspondingly by 10, so there is a slight reduction in CoR to be calculated as (95 - 10) / (100 - 10) = 94,4%.

⁷ If premium allocation approach is applicable, an entity can elect an accounting policy by which acquisition cash flows can be recognised as expenses in P&L when incurred. This policy is only applicable to acquisition cash flows associated with insurance contracts with coverage period that is no more than one year.

renewals (especially: How many years of renewals have been taken into account?).

For group of contracts which are onerous at inception (or become onerous in subsequent measurement during the remaining coverage period), the resulting loss for the whole remaining coverage period has to be recognized as additional expense in the ISE immediately in the current period. In contrast, for profitable contracts, the profit will be only released into P&L according to the coverage provided within the accounting period. Therefore, using IR and ISE as the terms to provide the combined ratio, the combined ratio may also contain losses of future periods⁸. On contrary, if in the future no new "onerous" contracts will be written, the combined ratio of these future periods will be enhanced since the losses of the onerous contracts of the past will not be reflected in the combined ratio of the current period anymore. In total, the rules of IFRS 17 on "onerous contracts" may evoke some "noise" to the combined ratio over the course of years.

The following two differences became apparent in the specific definitions of the combined ratio we have observed in our market sample:

 The reinsurance groups of Munich Re (also including Ergo) and Hannover Re reflect the retroceded amounts in the denominator as well as in the enumerator. All other five insurance groups in our sample consider the ceded reinsurance result as part of the enumerator:

Reinsurance view on combined ratio ("Net-to-Net" version of the CoR):

$$CoR = \frac{Ins.Service\ Expense\ (net)}{Insurance\ Revenue\ (net)}$$

Combined ratio using the ceded reinsurance result only ("Net-to-Gross" version of the CoR)⁹:

$$CoR = \frac{Gross \ Ins. Expense(claims) + Gross \ Ins. Expenses \ (costs) + RI \ result}{Insurance \ Revenue \ (gross)}$$

Background of this difference¹⁰ is the option of IFRS 17.86 allowing either to show the reinsurance result as one P&L item or to show separately amounts recovered from reinsurers as well as premiums paid to reinsurers¹¹. We point out that IFRS 17 requires also some further specific presentation requirements when using the separate approach, e.g., to deduct non-claims contingent commissions from reinsurance premium and, as mentioned above, to eliminate any non-distinct investment components from revenue as well as from expenses.

 A further difference is the handling of non-attributable costs (NAC), i.e. expenses which do not fall under the "IFRS 17 cash flows" within the contract boundary according to IFRS 17.B65/66.

⁸ The same argumentation with the contrary effect is, of course, also true for any reversal of loss components.

⁹ Sometimes, you may also find the CoR defined by the formula CoR = 1 - ISResult(net) / IR(gross) which yields to the same amount for the CoR as shown in the formula above.

¹⁰ Again a short example: Assume IR(gross) = 100 and ISE(gross) = 95, together with income(RI) = 10 and expenses(RI) = 11, i.e. a RI result of 1 (expense). The "Net-to-Net" version of the CoR is (95 - 10) / (100 - 11) = 95,5%, whereas the "Net-to-Gross" version is equal to (95 + 1) / 100 = 96%.

¹¹ As a result, the "Net-to-Net" version of the CoR can only be derived from P&L if the result from reinsurance is also available with separate line items for income and expenses from reinsurance held, anyways this information will be presented in the disclosure tables according to IFRS 17.98/103.

Allianz, Generali and Zurich add such NAC to the ISE in the enumerator, whereas Hannover Re, Munich Re/Ergo as well as Talanx stay with the pure IFRS 17 ISE figures¹². By reflecting the NAC in the combined ratio, this "operating combined ratio" will be higher, and the portfolio seems to be less profitable¹³.

As **conclusion** we see the following takeaways from these recent publications:

- Combined ratio is shown based on IFRS 17 figures.
- There is a lack of comparability in the combined ratio due to NAC which is or is not reflected in the enumerator and which is defined differently by different insurers.
- Some entities stay with explicitly reflecting reinsurance held in the denominator (reduction of the gross revenue) as well as in the enumerator (reduction of gross claims by amounts recovered from reinsurance), other follow the IFRS 17 accounting by only using the reinsurance result as sub-item of the enumerator. Per se, the effect on the combined ratio depends on the different combinations of gross and reinsurance figures.
- Since claims reserves shall be discounted under IFRS 17, there is a positive effect on the combined ratio (assuming positive interest rates for discounting). To eliminate this effect, individual companies additionally report an undiscounted combined ratio.
- There will be some noise within the combined ratio depending on the portfolio development, especially due to two effects:
 - Losses and reversal of losses to be reflected in the P&L for onerous contracts during their coverage period
 - Risk adjustments in the LIC and its release for portfolios with increasing or decreasing volume

In total, we assume that the combined ratio will remain as a main KPI for the P&C business, even with the additional complexities described above. However, these complexities might have an impact whenever external analysts may try to derive a forecast of profitability.

Therefore, we can imagine that the insurance market may disclose in the future also some reconciliations of the CoR (major drivers for changes) to increase comparability and to enable the user to identify some "noise effects" (e.g. any impact from risk adjustment and from onerous contract P&L effects belonging to future coverage). In some cases, the CoR is also divided into individual claim effects.

¹² From Axa's publication we could not deduct the concrete definition chosen by Axa

¹³ Example: Assume IR = 100 and ISE = 95, and in addition NAC = 1. The "operating CoR" would reflect NAC in addition to ISE as expenses, i.e. (95 + 1) / 100 = 96%, whereas the CoR referring to ISE only would be 95 / 100 = 95%.