June 2025

IFRS 17 Metrics Discussion Paper

IBC
Insurance Bureau of Canada

Contents

Background

The International Financial Reporting Standard 17 (IFRS 17) for Insurance Contracts took effect on January 1, 2023. It is intended to bring new levels of transparency about insurers' underwriting and investment activities, give readers more insight into an insurer's financial health, drive greater consistency globally and increase comparability between insurers.

In March 2023, Insurance Bureau of Canada formed a working group of IBC's Finance Standing Committee – the IFRS 17 Key Performance Indicators (KPIs) Working Group. Its purpose was to discuss profitability measures under IFRS 17 and develop working metrics that could serve as a guide for property and casualty (P&C) insurance industry use. In an effort to achieve alignment and common understanding of the IFRS 17 measurements and KPIs, the working group reviewed global trends and regulatory metrics, considered various metrics used by members, proposed new metrics and discussed the appropriate metrics for determining market share.

Purpose

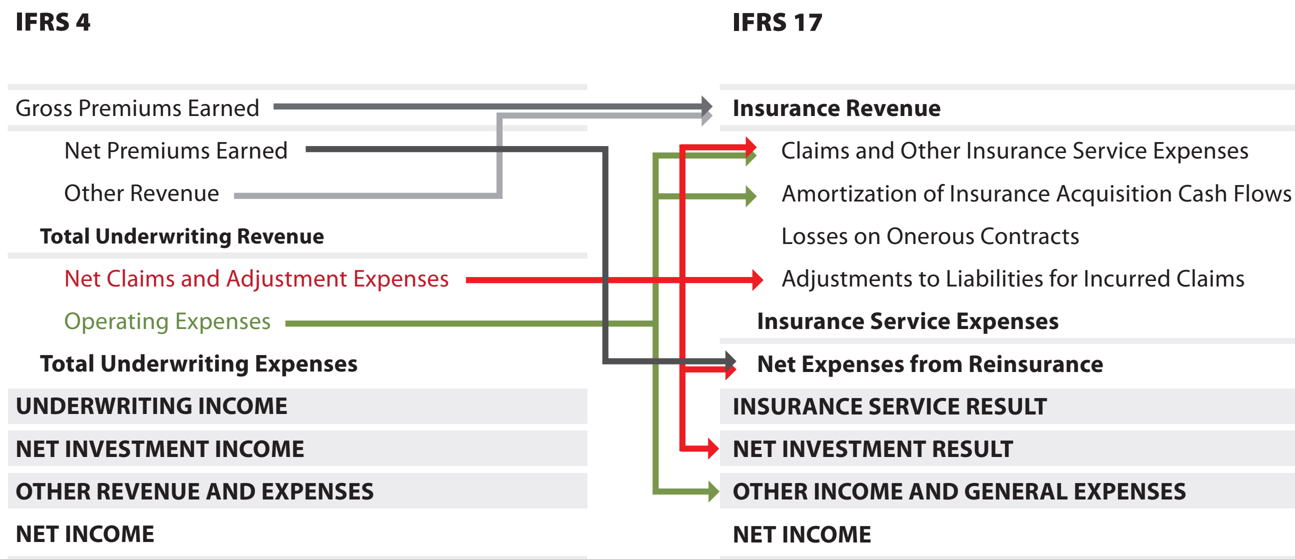
The purpose of this paper is twofold: 1) outline a set of KPIs to describe industry performance within the IFRS 17 framework, and 2) help the P&C insurance industry communicate with its stakeholders using this set of KPIs. Individual insurance companies may use different KPIs based on their data; however, given the differences in purpose and data availability, the ratios listed in this paper are based on the current best practices identified by IBC's KPI Working Group. Over time, companies will have a better view of KPI trends for their individual companies and the P&C insurance industry.

IFRS 17 Impacts on Financial Indicators

The shift to IFRS 17 has had some key impacts, including the following:

- Financial results and equity may appear more volatile
- Key financial metrics under IFRS 4, such as combined ratio and loss ratio, have changed
- The impact of financial risks and investment income on an insurer's results are presented separately from insurance performance
- Greater granularity in contract groupings for valuation purposes has created additional complexity in the valuation models and data, system and process requirements.

Below is an example of the changes to the income statement:



Financial Indicator	Impact
Insurance Service Result (Underwriting)	**Favorable impact:** Under IFRS 17, insurance service expenses only include the expenses that are directly attributable to the fulfillment of insurance contracts and an allocation of fixed and variable overhead costs. As a result, a portion of the operating expenses and discount unwind of claims/impact of change in discount rate costs are now excluded from the insurance service result and reclassified to total other income and expenses, and net investment result, respectively. In 2023 and 2024, these changes to the presentation of insurance service expenses under IFRS 17 generally decreased the insurance service ratio, claims ratio and combined ratio.
Net Investment Result	**Unfavorable impact:** The net investment result is negatively impacted by the reclassification of the discount unwind and change in discount rate of claims costs. This resulted in an unfavourable impact in 2023 and 2024.
Net Income	**Limited impact:** IFRS 17 primarily affects the timing of earnings. It is expected that there will be limited impact over the full insurance contract life.

Financial Indicator	Impact
Equity	**Increased volatility:** Several factors affected the reported equity when IFRS 17 was first applied, and the overall impact largely depended on how insurance contracts were previously measured under IFRS 4. It is expected that there will be limited impact over the full insurance contract life. In 2023 and 2024, the vast majority of P&C insurers reported an increase in equity.

Basic Financial Definitions for IFRS 17[1]

Below is an introduction to the key metrics under IFRS 17, which provides the necessary background for the list of financial ratios.

Metrics	
Insurance Revenue	Insurance revenue is the amount of premiums earned adjusted for a financing effect (e.g., time value of money), if applicable, and excludes investment components. It depicts the provision of services arising from the group of insurance contracts at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those services.
Discounting	Discounting adjusts the estimates of expected cash flows to reflect the time value of money and the financial risks associated with those cash flows (to the extent that the financial risks are not already included in the cash flow estimates).
Net Finance Expenses (Income) from Insurance and Reinsurance Contracts	This is the change in the carrying amount of a group of insurance/reinsurance contracts held arising from the impact of the time value of money, changes in the time value of money, the effect of financial risk and changes in financial risk. It reflects the effect of changes in the discount rate on the fulfillment of cash flows and the impact of the discount unwind.

1 KPMG, "Insurance Contracts: First Impressions: 2020 Edition – IFRS 17," 2020

Metrics	
Insurance Service Expenses	These are expenses arising directly from a group of insurance contracts issued. Unlike underwriting expenses under IFRS 4, this item only includes expenses that can be directly attributed to fulfilling insurance contracts as well as an allocation of fixed and variable overhead costs. It excludes amounts that are allocated to repayments of investment components, refunds of premiums and payment of policy loans. As a result, net finance income and general and operating expenses are now reclassified to net investment result, and other income and expenses, respectively.
Incurred Claims and Other Insurance Service Expenses	This contributes to insurance service expenses, and captures claims and other directly attributable expenses (except for acquisition costs). These expenses directly arise from insurance contracts issued and exclude any investment components.
Amortization of Insurance Acquisition Cash Flows	This is the systematic allocation of the depreciable amount of cash flows associated with acquiring insurance contracts over their useful lives. Insurance acquisition cash flows are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to a portfolio of insurance contracts to which the group belongs. Cash flows that are not directly attributable to the groups or individual insurance contracts within the portfolio are included, to the extent they are allocated to the contracts.
Losses on Onerous Contracts	Onerous contracts are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. Losses on onerous contracts are expenses under insurance service expenses, and they include the loss and reversal of losses on onerous contracts. Losses on onerous contracts are expenses under insurance service expenses, and they include the loss and reversal of losses on onerous contracts.
Liability for Incurred Claims	This is the obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not yet been reported and other incurred insurance expenses. It also includes paying amounts that relate to insurance contract services that have already been provided and any investment components that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.

Metrics	
Adjustments to Liabilities for Incurred Claims	This represents adjustments recognized in the current fiscal year related to changes in the ultimate insurance service expenses on opening reserves (for example, changes in past service), excluding any investment component and including the effect of the time value of money and the effect of financial risk.
Allocation of Reinsurance Premiums Paid	These are the premiums paid by the cedant to a reinsurer in return for a reimbursement from the reinsurer when it pays valid claims arising from the underlying contracts.
Amounts Recovered from Reinsurers	These are the amounts recovered from the reinsurer that are included in the net expenses from reinsurance contracts held, such as incurred claims and commissions.
Net Expenses from Reinsurance Contracts Held	This is the allocation of premiums paid on reinsurance contracts less the amounts recoverable from reinsurers for incurred claims and commissions.
Insurance Service Result	This is the amount of profit earned from providing insurance coverage. This concept is similar to underwriting income.
Investment Return	This is the amount of return on investments. This concept is similar to net investment income under IFRS 4.
Net Investment Result	This is the investment income from managing financial assets (investment return), as well as net finance income from insurance obligations.

Considerations for Implementing IFRS 17 KPIs

1. **What are some of the key considerations in the development of KPI metrics under IFRS 17?**

   The selection of metrics will depend on the availability of industry-wide data, as well as the user's perspective and purpose of analysis. For example, IBC uses industry-wide metrics to advocate to provincial and federal governments and regulators, whereas many of its members require their company's metrics for benchmarking purposes. In addition, metrics need to be relatively easy for stakeholders to comprehend.

2. **How do IFRS 17 metrics for P&C insurance differ from IFRS 4 metrics?**

   In general, the metrics under IFRS 4 and IFRS 17 are not comparable. For example, earned premiums, incurred claims and undiscounted claims are no longer reported by insurance companies under IFRS 17. In addition, IFRS 17 includes new financial concepts, such as net insurance finance income and expenses, and insurance service result (a new underwriting profit measure).

   There are some important caveats to consider with the new IFRS 17 KPIs. For example, expenses are now allocated between insurance results and non-insurance operating expenses, which affects underwriting profit and investment result. Also, equity may have transition adjustments, which would impact the return on equity.

3. **Is the process for establishing new IFRS 17 KPIs still ongoing? If so, what work is left to be done?**

   It will be a few years before consistent KPI metrics emerge and year-over-year comparison is more accurate. For example, insurers may have different interpretations of some of the movement of line items in IFRS 17, such as expenses and financing income. Improving consistency across companies would help improve benchmarking.

4. **Can individual companies create custom KPIs?**

   IBC understands that companies may have their own set of internal KPIs that differ from the publicly reported metrics. IBC does not aim to set the standard for how companies measure profitability but aims to come to a consensus on possible metrics. Individual companies, regulators, governments and other stakeholders should use the preliminary KPIs in this paper for informational purposes only.

IFRS 17 Preliminary KPIs

All metrics and KPIs in this report are based on IFRS 17 concepts and terminology and can be calculated based on a company's income statement. As the insurance industry adjusts to IFRS 17, new metrics may be included in future reports based on ongoing discussions with IBC members and stakeholders. In addition, IFRS 17 will need to be in place for a few years before key performance metrics emerge and benchmarks for an accurate year-over-year comparison will apply.

Please note that all cash outflows are defined as debits. The use of insurance revenue in the denominator instead of net premiums earned can result in a meaningful difference when a company has relatively higher levels of ceded premium.

$$\text{(1) Gross}^{2}\text{ Insurance Service Ratio} = \frac{\text{Insurance Service Expenses}}{\text{Insurance Revenue}}$$

$$\text{(2) Reinsurance Impact Ratio} = \frac{\text{Net Expenses from Reinsurance Contracts Held}}{\text{Insurance Revenue}}$$

$$\text{(3) Net Insurance Service Ratio} = (1) + (2)$$

$$\text{(4) General and Operating Expense Ratio} = \frac{\text{General and Operating Expenses}}{\text{Insurance Revenue}}$$

$$\text{(5) Operating Combined Ratio} = (3) + (4)$$

$$\text{(6) Net Insurance Finance Expense Ratio} = \frac{\begin{array}{c}\text{Net Finance Expenses (Income) from}\\ \text{Insurance and Reinsurance Contracts}\end{array}}{\text{Insurance Revenue}}$$

$$\text{(7) Comprehensive Combined Ratio} = (5) + (6)$$

$$\text{(8) Required Rate of Return on Cash Flow} = \frac{\text{Net Investment Return}}{\begin{array}{c}\text{Net Finance Expenses (Income) from Insurance}\\ \text{and Reinsurance Contracts}\end{array}}$$

2 This formula can also derive the Insurance Service Ratio on a direct basis.

Ratios[3]	Definitions	Advantages	Disadvantages
Insurance Service Ratio (ISR)	This ratio is a key profitability measure of insurance service result and represents the relationship between claims costs and expenses that are directly attributable to insurance contracts and insurance revenue. A ratio over 100% generally indicates a loss in insurance service result. • Gross/direct ISR measures the profitability of insurance service result before accounting for reinsurance arrangements. • Net ISR measures the profitability of insurance service result after reinsurance arrangements.	• Can be calculated based on the income statement • Available by line and province • Matches insurance service result (new underwriting profitability measure)	• Does not account for indirect operating expenses or insurance finance expenses, which makes the insurance operation seem more profitable under IFRS 17 compared to IFRS 4 • Could be somewhat misleading if used alone, given the different methods companies use to determine which expenses are directly attributable and which end up as other operating expenses • Does not split claims costs and expenses
Reinsurance Impact Ratio	This ratio measures the net reinsurance expenses relative to insurance revenue.	• Can be calculated based on the income statement • Available by line and province	• Comparability across the industry may be compromised, as components of recoveries are not separated into ceded premium expenses and claims recoveries
General and Operating Expense Ratio	This ratio measures the amount of general and operating expenses, which are not directly attributable to the fulfillment of insurance contracts, related to insurance revenue.	• Can be calculated based on the income statement • Can be paired with ISR to capture the overall expenses relative to revenue	• Not available by line or province • Could be somewhat misleading when used alone, given the inconsistencies in the methods companies use to determine which expenses are directly attributable and which end up as other operating expenses

3 The selection and calculation of these ratios are based on IFRS 17 methodologies and may be different from similar ratios from other sources.

Ratios	Definitions	Advantages	Disadvantages
Operating Combined Ratio	This ratio measures the overall expenses relative to insurance revenue while accounting for the insurance service expenses, and general and operating expenses.	• Can be calculated based on the income statement • Provides a more complete picture of the expenses from operations and eliminates the impact of allocation	• Not available by line or province • Does not account for the net expenses (income) from insurance and reinsurance contracts
Net Insurance Finance Expense Ratio	This ratio measures the net finance expenses (income) from insurance and reinsurance contracts relative to insurance revenue.	• Can be calculated based on the income statement	• Not available by line or province • Effect of change in discount rate could be reported in other comprehensive income • May be volatile in a non-stable interest rate environment
Comprehensive Combined Ratio	This ratio measures the overall expenses (insurance service expenses, and general and operating expenses) relative to insurance revenue, while also accounting for the net finance expenses/income from insurance and reinsurance contracts.	• Can be calculated based on the income statement • Provides a more complete picture of the expenses from operations and eliminates the impact of allocation • Can be used as the best proxy of the "old" combined ratio under IFRS 4	• Not available by line or province • Differences between this ratio and the "old" combined ratio under IFRS 4 must be noted • May be volatile in a non-stable interest rate environment
Required Rate of Return on Cash Flow	This ratio measures the investment return relative to the net finance expenses (income) from insurance and reinsurance contracts. When the investment return and the net finance expenses (income) from insurance and reinsurance contracts are both positive, a ratio larger than 100% suggests that investment returns are exceeding the rate at which the discounting on insurance liabilities is unwinding/accreting and being adjusted for changes in assumptions.	• Can be calculated based on the income statement	• Not available by line or province • May be volatile in a non-stable interest rate environment, and may sometimes be negative

ibc.ca