

IFRS 17 Perspective from AXA

Presentation to the EFRAG Board

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Current Insurance Accounting Practices Calls for a Change

Current accounting practice...

- IFRS4 broadly allows the continuation of existing accounting practices
- Leading to the use of very diverse accounting models; they range from fair value based concepts to prudent at-cost based principles

... and its consequences

- Financial statements of insurers are complex and lack comparability
- Widespread use of so-called non-GAAP measures
- Higher cost of capital for insurers

AXA welcomes the adoption of an international accounting standard striving for a better comparability and understandability of insurers' financial statements

Key Changes Expected from IFRS 17...

	Current Accounting Practice	IFRS 17
Recognition and Measurement	 Reserves based on statutory GAAP, partly linked to regulatory requirements Undiscounted reserves in P&C Level of granularity based on line of business 	 → Use of current estimates → Explicit disclosure of risk margin → Reserves generally discounted → Further split of portfolios required → Premium allocation approach closer to current accounting practice in P&C for premium reserves
Profit Patterns	• Diverse patterns in use	 → Should aim at reflecting pattern of services rendered → Introduces the "contractual service margin" concept (reserve for future profits)
Presentation	Inclusion of investment component in insurance revenues	 → Exclusion of investment component from insurance revenues → Additional disclosures

IFRS 17 is not only a new accounting standard; it is a complete change of insurers' financial reporting

... and Its Impact on Insurers

- Impact on business model itself (product strategy and pricing) should in theory be limited
- However, certain elements of IFRS 17 could result in an inadequate reflection of the economics of insurance:
 - Risk pooling and mutualisation
 - Hedging strategies (derivatives)
- Furthermore, the role of insurers as long-term investors will be impacted

A new accounting standard should :

- better reflect business reality
- not affect insurance business model
- not discourage insurers' role as long-term investors



Risk Pooling and Mutualization

Insurance business model

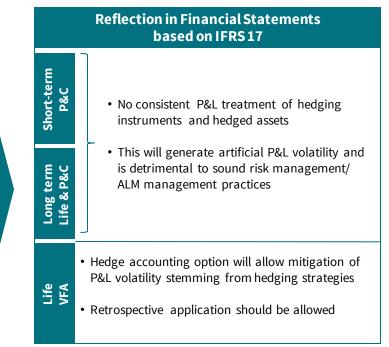
- Insurance business is managed on a portfolio basis:
 - risks are being pooled, reflecting the law of large numbers
 - asset-liability management is based on contracts grouped in portfolios
- For certain policies -even when written in different years- profit sharing is based on an intergenerational mutualization by sharing the same pool of assets and / or technical result (expense and underwriting margins)

Reflection in Financial Statements based on IFRS17 (CSM measurement) Short-term • Excessive granularity P&C leads to: Operational complexity Undue costs \geq Long term Life & P&C Annual cohort Need to define requirement for pragmatic and mutualized workable approaches business leads to in defining levels of artificial separation aggregation of economically linked contracts Life VFA and unnecessary complexity

Hedging Strategies / Derivatives

Insurance business model

- Insurers apply different hedging strategies based on derivatives
- Main objectives of hedging strategies are the protection of the value of financial assets and related income, so as to ensure stable returns to policyholders and shareholders
- Strategies mostly focus on mitigating:
 - Upward interest rate shocks potentially triggering higher lapses
 - Re-investment risk by hedging guaranteed rates
- Furthermore, insurers use derivatives for duration management purpose, including for short-term business



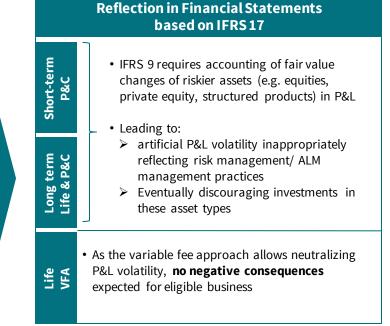
Insurers as Long-Term Investors

Insurance business model

- Insurers are one of the most important investors, investing in a wide range of instruments, durations, etc.
- Based on sound ALM principles:
 - Insurers strive to match the duration of investments with duration of insurance liabilities
 - Making insurers a key long-term investor in financial markets



Insurers need an accounting framework avoiding undue P&L volatility



Other Technical Considerations on IFRS 17

Comparability	 Many insurers (in particular US-based ones) will not report under IFRS 17; therefore no international level playing field. Insurance will be the only major sector reporting basically under a full fair value framework. Scope of the VFA: restrictive variable fee approach criteria lead to similar businesses accounted for under different IFRS 17 accounting models. 	
Profit pattern	• CSM release pattern might improperly reflect actual emergence of profits . This is likely to be the case for direct participating business with insurance riders, for which the CSM release drivers are not expected to adequately reflect the transfer of investment services .	
Operational challenges	 The implementation of IFRS 17 will be a major project impacting all aspects of financial management and communication. Given these impacts, testing and parallel runs will be necessary. 	
Non-GAAP	 As artificial P&L volatility will remain, insurers will still need to keep on applying non-GAAP measures to ensure adequate communication on performance. 	
Value	• IFRS 17 should strive to become a referential for value measurement . The sum of shareholders' equity including other comprehensive income plus contractual service margin less subordinated debt should provide indications on insurance companies' embedded value.	

Conclusion

IFRS 17 is the unique opportunity for the insurance industry to have an international and high-quality accounting standard allowing for full comparability

In order to achieve this, certain key elements need to be further refined to ensure an appropriate reflection of the insurance business model and avoid artificial P&L volatility

A close dialogue between all stakeholders as well as the European endorsement process will be key to address and resolve these points AXA is fully committed to support this process in order to achieve the best possible outcome for all stakeholders