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Introducing IFRS 17 at Beazley

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What IFRS 17 means for Beazley

- IFRS 17 is a new accounting standard which came into force on 1 January 2023
- Beazley will use IFRS 17 for the first time at our Half-Year Results 2023
- IFRS 17 has been designed to bring more transparency, comparability, and alignment to the way insurance companies explain financial performance
- IFRS 17 allows three models to be used and we've chosen the General Measurement Model (GMM).
- We've chosen GMM as it's applicable to both short-term and long-term contracts, and ensures a high level of transparency and simplicity on our Profit and Loss statement and Balance Sheet.

What's staying the same?

Strategy

IFRS 17 and IFRS 9 do not change our strategy or the way we do business.

Cash generation

Our cashflows stay the same under IFRS 17. It's the timing of profit recognition that will change.

Dividends and capital

There is no impact to our regulatory capital position or dividend paying capacity.

Our dividend policy remains the same as set out in the Annual Report 2022.

What’s changing?

Proforma and KPI changes

The way we report will look different under IFRS 17 and our KPIs will be revised to reflect IFRS 17 metrics.

Reserving approach

Our reserving approach and setting of the risk adjustment will align to IFRS 17 principles.

Introduction of Discounting

IFRS 17 requires that insurance cashflows are on a discounted basis. We have adopted the 'bottom up' approach to discounting.

Interest rate movement will be shown in the Profit & Loss as part of our net insurance and investment result.

Accounting choices

	Our choices	The impacts
MEASUREMENT MODEL	General Measurement Model (GMM)	We have consistent accounting treatment across all business.
RISK ADJUSTMENT	Cost of Capital approach	We expect the reserve confidence level will be between the 80th to 90th percentile range.
DISCOUNTING	Bottom-Up approach	Discounting will reduce insurance contract liabilities.
EXPENSES	Updated Directly Attributable (DA) methodology to align to IFRS 17	Some expenses will be recognised outside the insurance result, reducing the amount of DA expenses.

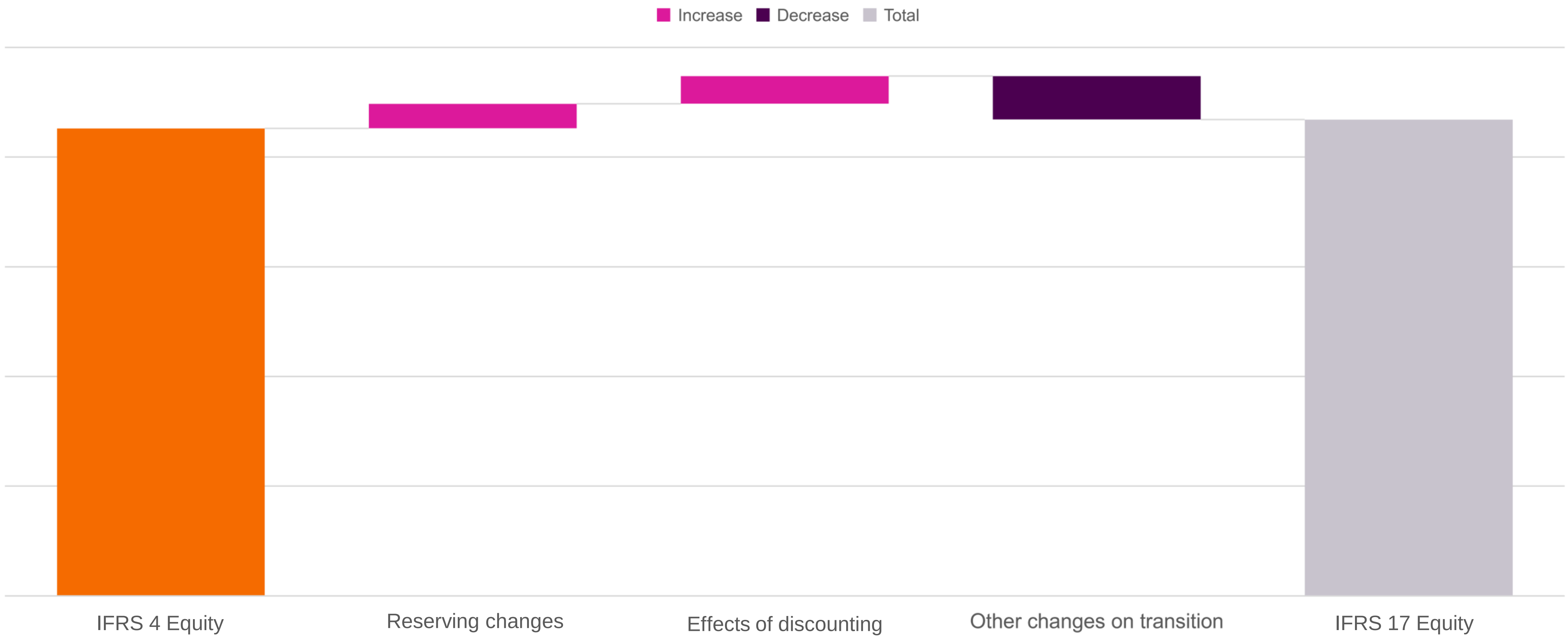
Accounting choices

	Our choices	The impacts
AGGREGATION	Aggregation of products with similar risks (Portfolios) and two Groupings (profitable and onerous)	Our approach to aggregation reflects the way we manage risks and our business.
TRANSITION	Fully Retrospective approach	The standard will be applied as though it was always in place.
IFRS 9 FINANCIAL INVESTMENTS	Fair Value through Profit & Loss	No material impact to our valuation approach.

GMM vs PAA

	Current IFRS / GAAP	GMM (General Measurement Model)	PAA (Simplified Approach)
Unexpired Risk	UPR & DAC	Liability for remaining coverage (LRC) Contractual Service Margin (CSM) Risk Adjustment Discounting Best estimate of Future Cash Flows	Liability for remaining coverage (LRC) Premium received (less acquisition costs)
Expired Risk	Undiscounted reserves	Risk Adjustment Discounting Best estimate of Future Cash Flows	Risk Adjustment Discounting Best estimate of Future Cash Flows

IFRS 4 to IFRS 17 Net Equity Walk



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Maintaining a prudent reserving approach

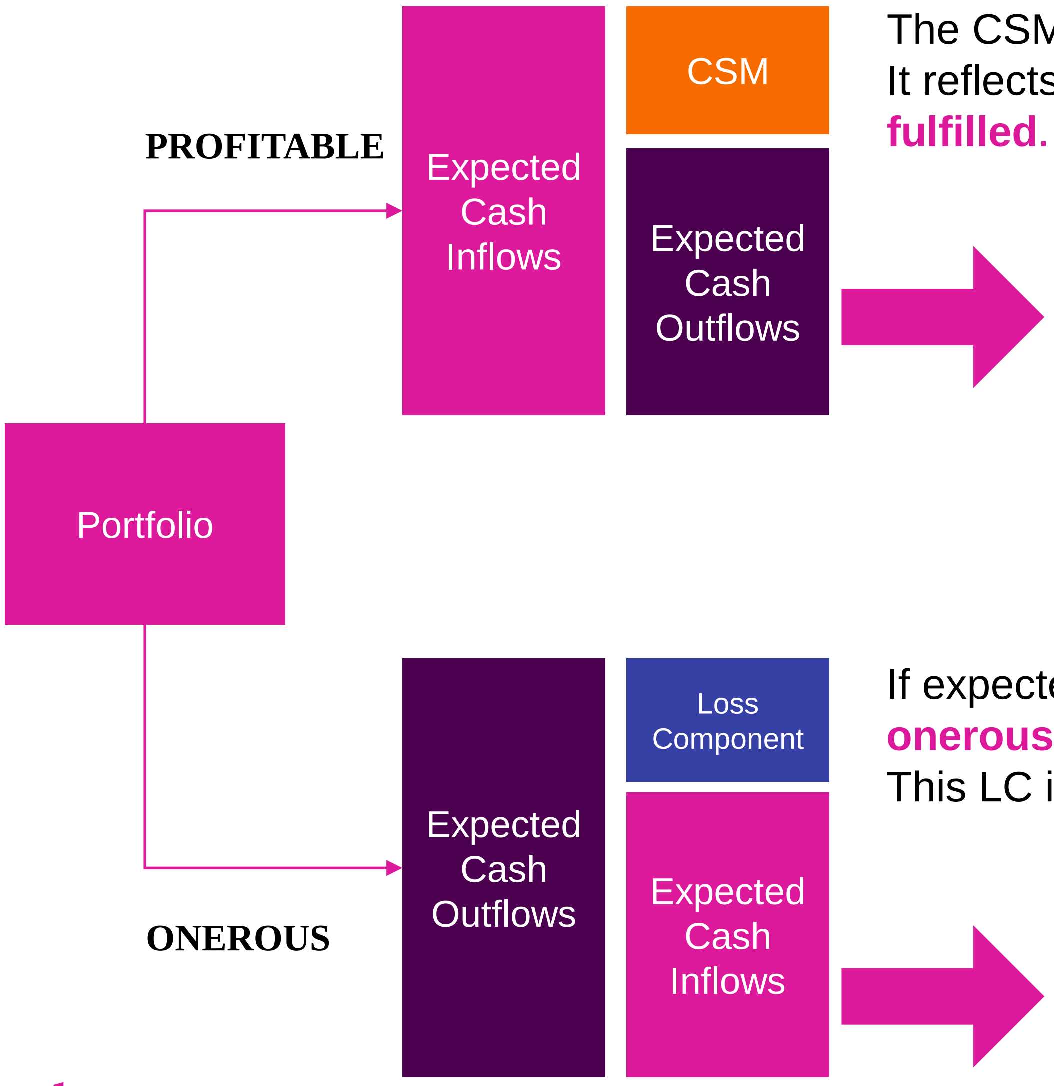
IFRS 4

- We have employed a **consistent** and **prudent** reserving strategy
- Aim to hold a margin of **5%-10% above actuarial** (which itself includes a level of prudence embedded)
- At the end of 2022, the margin above the actuarial estimate was **5.3%**

IFRS 17

- Aim to have a reserve confidence level in the **80th to 90th percentile range**
- The level of reserve margin will be calculated on a **ground up basis** with consideration of the **compensation** we target for each line of business, in line with IFRS 17 principles
- Our year-end 2022 margin above the actuarial estimate of 5.3% equated to a confidence level at the **upper end** of our 80th to 90th percentile reserve confidence range under IFRS17

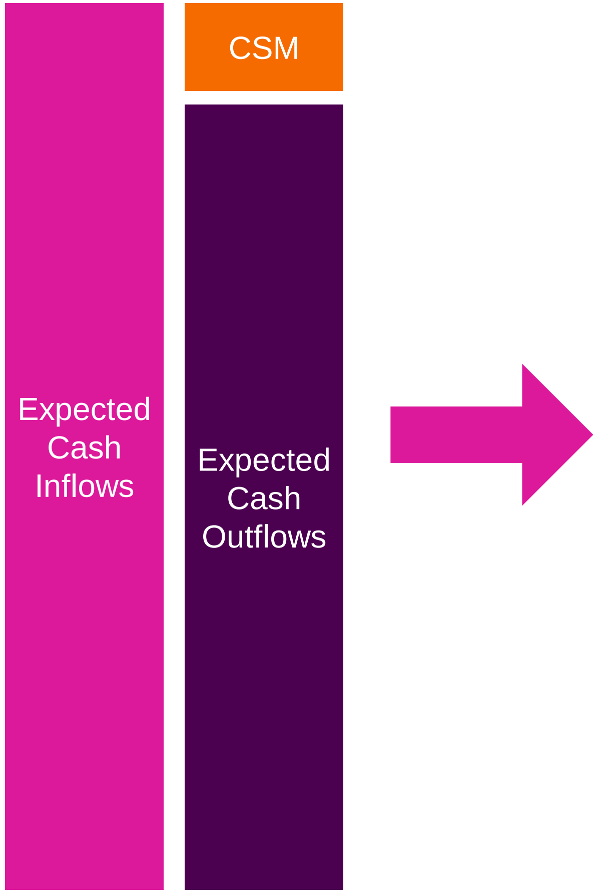
Contractual Service Margin (CSM)/Loss Component

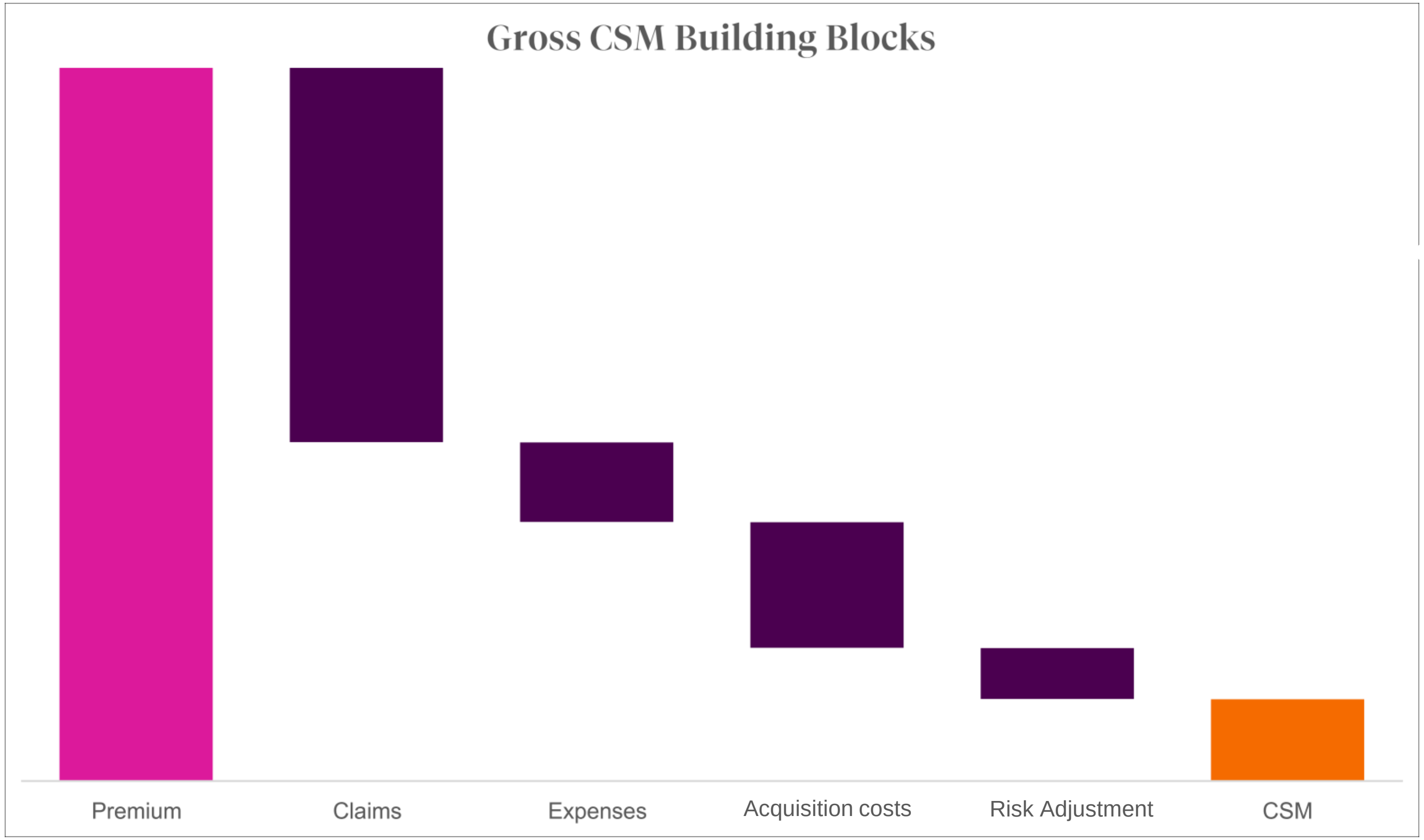


The CSM is established when we expect cash **inflows to exceed outflows**. It reflects the **future profit** we expect to **earn** as insurance contracts are **fulfilled**.

If expected **cash outflows exceed inflows**, then the contract is considered **onerous** and we no longer have a CSM, but a **loss component (LC)** instead. This LC is **immediately** reflected on the Profit & Loss.

Components of the Contractual Service Margin (CSM)





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Discounting

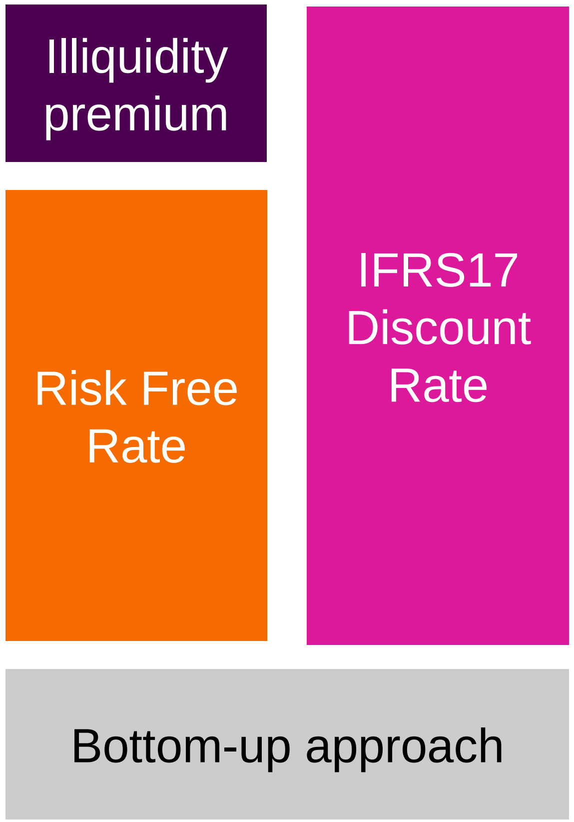
- Under IFRS 17 discounting is applied to expected future cash flows to reflect **the time value of money.**

- The discount rate used is required to be consistent with **observable** current market prices and reflects the **cashflows' characteristics** and the **contract's liquidity**.

- Under IFRS 17 a bottom up or a top-down approach are available. At Beazley, we are using the **bottom-up** approach.

- For the Risk Free Rate, we are using relevant government bond yields.

- The Illiquidity Premium is based on the spread between relevant corporate and government bond yields, after removing credit risk.



The new Profit & Loss

IFRS 4	
Gross earned premiums	X
Ceded earned premiums	(X)
Gross claims	(X)
Ceded claims	X
Expenses	(X)
Underwriting Result	**X**
Investment income	X
Profit or Loss	**X**
Other Comprehensive Income	X
Comprehensive Income	**X**

IFRS 17	
Insurance revenue	X
Insurance service expense	(X)
Allocation of Reinsurance Premium	X
Amounts recoverable from Reinsurers	X
Insurance service result	**X**
Investment result	X
Insurance finance expense	(X)
Net finance result	**X**
Other operating expenses	X
Profit or loss	**X**
Other Comprehensive Income	X
Comprehensive income	**X**

Our new combined ratio calculation

- Inputs derived directly from the IFRS 17 Profit & Loss
- Will show both **discounted** amounts for insurance service expense and insurance revenue
- This calculation is **net of reinsurance** for both insurance service expense and insurance revenue

Insurance Service Expense
net of
Reinsurance recoveries

Insurance Revenue
net of
Reinsurance ceded revenue

IFRS 17 compared to IFRS 4 combined ratio

- We expect the IFRS 17 combined ratio to be around 3-6% lower than under IFRS 4, driven by the inclusion of discounting and the updated approach to attributable expenses both reducing the number.
- Other elements are different between the two calculations, such as onerous contracts and difference in definition of premium, but we expect these to be less material.
- Changes in discount rates will impact the IFRS 17 combined ratio.

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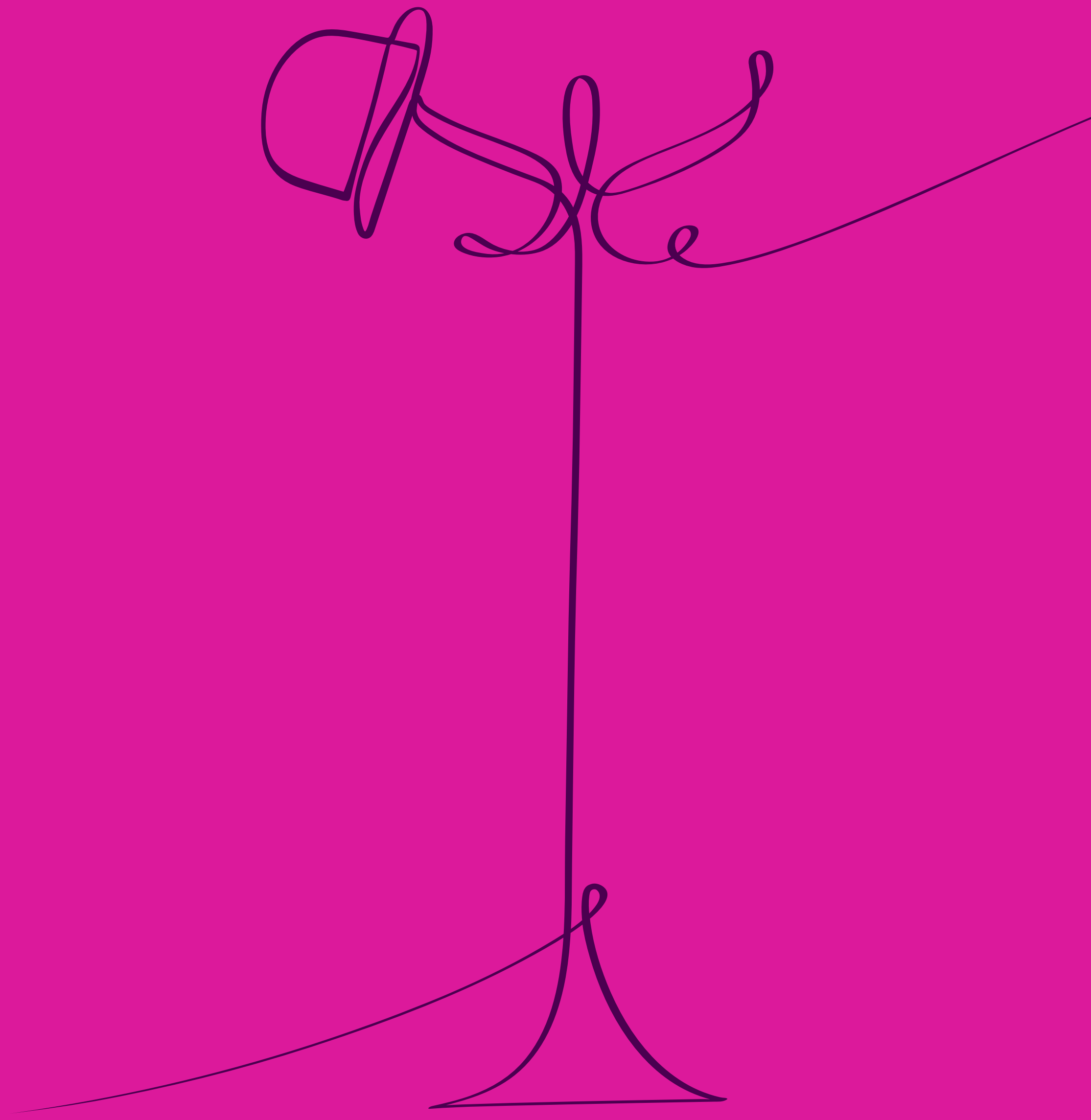
Insurance Written Premium

Gross Premiums Written is replaced with Insurance Written Premiums.

IWP excludes reinstatement premiums and profit commissions as these are treated as claims under IFRS 17.

The expectation is that growth will be materially consistent between IFRS 4 and IFRS 17.

In summary



Key takeaways

Insurance Written Premium is our new growth metric

IFRS17 Combined Ratio will be net of reinsurance and discounted

Reserve confidence – expected to be between the 80^{th} and 90^{th} percentile

27th July 2023 – Half Year Trading Update plus 2022 IFRS 17 comparatives

7th September 2023 – Half Year Results

IFRS 17 Journey

Nov
Deloitte Market briefing

Mar
2022 Annual Report

May
Q1 Interim Statement

May
IFRS 17 Analyst session

27th July
Trading update and
2022 IFRS 17 comparatives

7th Sept
Half Year IFRS 17 results

2023
Annual Report

Q4 2022 | **Q1 2023** | **Q2 2023** | **Q3 2023** | **Q4 2023** | **Q1 2024**

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Questions

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Appendices

Glossary

IFRS 4	The interim standard previously used in Beazley and was replaced by IFRS 17 on 1 January 2023.	**Liability for Incurred Claims (LIC)**	The liability of Incurred Claims (LIC) is the outstanding claims provision for Past and Current Service. The calculation for the LIC is very similar to the Solvency II calculation of Claims Provision. The key difference is the risk margin which can be used. IFRS 17 is less prescriptive over what a firm can use as the risk margin. The principle within the standard is that the risk margin should be such that the firm is equally likely to retain or sell its liabilities.
IFRS 9	IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.	**Risk adjustment for non-financial risk**	This is the compensation required for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risks.
General Measurement Model (GMM)	The GMM is the methodology we are using for our IFRS17 calculations. It is one of three methodologies available to use under IFRS 17 and is the one that suits our business best. It includes four elements: • Estimates of future cash flows • An adjustment for the time value of money using appropriate discount rates • A risk adjustment for non-financial risks • The contractual service margin	**Contractual service margin (CSM)**	This is a new requirement under IFRS 17. It represents the unearned profit that we will recognise as we provide services in the future.
Premium Allocation Approach (PAA)	A simplification of the GMM permitted if the coverage period of contracts is one year of less or it can be proven that the PAA approach gives a materially similar outcome to the GMM approach.	**Loss Component (LC)**	When the expected cash outflows exceed inflows on a contract, it is considered onerous. This means there is no longer a CSM, but instead a loss component.
Liability for Remaining Coverage (LRC)	Liability for Remaining Coverage (LRC) consists of the Fulfilment Cashflows and the Contractual Service Margin.	**Discounting**	Under IFRS 17 discounting is applied to expected future cash flows to reflect the time value of money.
UPR – Unearned premium reserve	A liability reported on the balance sheet representing the part of premiums received and receivable that is applicable to the unexpired portion of the policy. Source: ifrs.org	**DAC – deferred acquisition costs**	Acquisition costs, including commissions and other initial expenses incurred in the course of obtaining business and issuing policies, are capitalised in the balance sheet, and amortised as an expense in subsequent periods. Source: ifrs.org