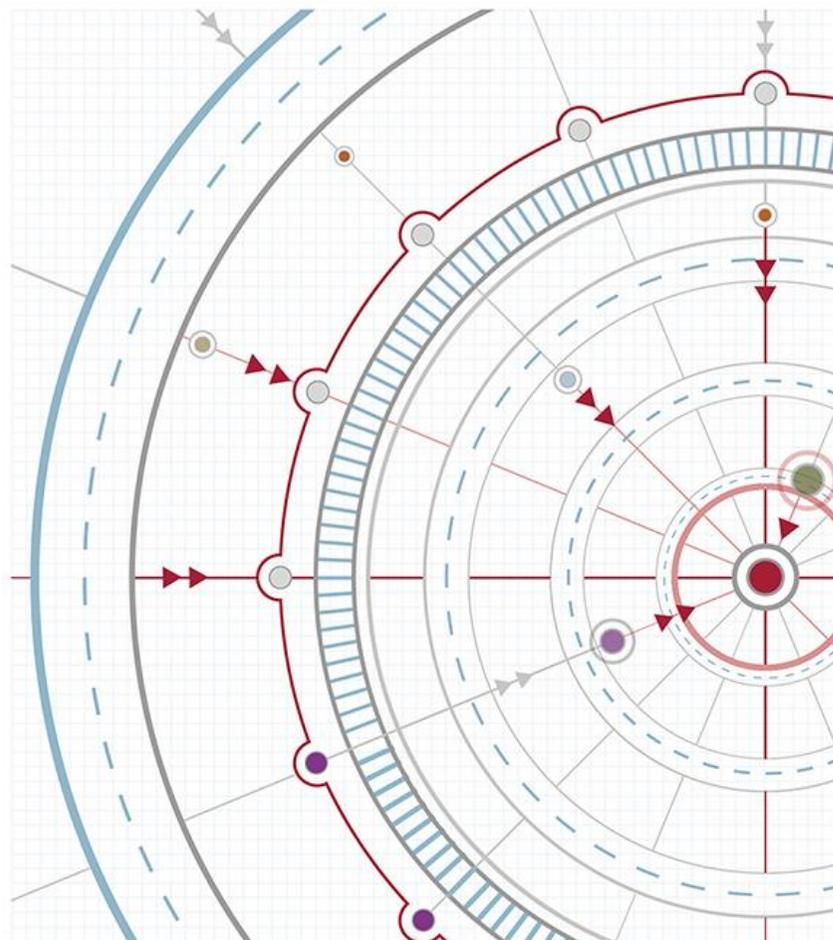


IFRS® Foundation



# IFRS 17 *Insurance Contracts*

Presentation to the EFRAG Board

Brussels, 14 September 2017

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International Accounting Standards Board

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.

# IFRS 4: a mixed bag

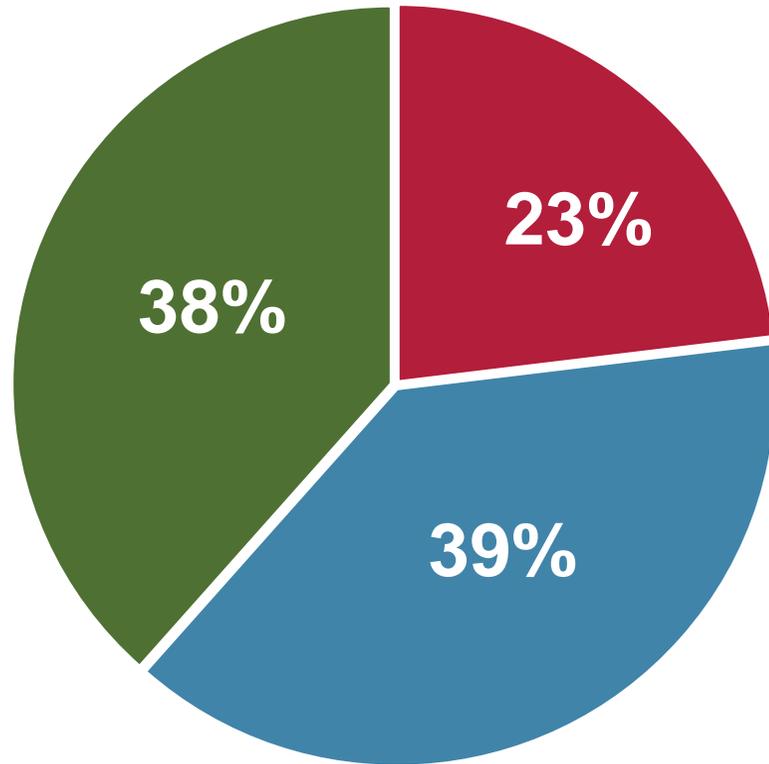
## Top-20 listed insurance companies using IFRS Standards

Accounting policies applied to insurance contracts issued	Number of companies	Total assets (US\$ trillions)
<b>Based on guidance in:</b>		
• a mix of national GAAPs	8	4.1
• US GAAP	3	1.6
• Canadian GAAP	4	1.4
• other national GAAP	5	2.0
<b>Total</b>	<b>20</b>	<b>9.1</b>

Source: Effects Analysis on IFRS 17

# Insurance obligations measurement today

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■ Current rates ■ Historical rates ■ Mix of rates

- Use of old or outdated assumptions
- Use of 'expected return on assets held' as discount rate
- Options and guarantees not fully reflected

Discount rates used for a sample of European life insurers (2015)  
Source: Effects Analysis on IFRS 17

# Recognition of revenue and profit today

- Cash or deposits received presented as revenue
  - inconsistent with other industries
- Profit is recognised in various ways

immediately when  
an insurance  
contract is written

OR

only when the  
contract ends

OR

over the duration of  
the contract

- Use of many non-GAAP measures

# Main improvements introduced

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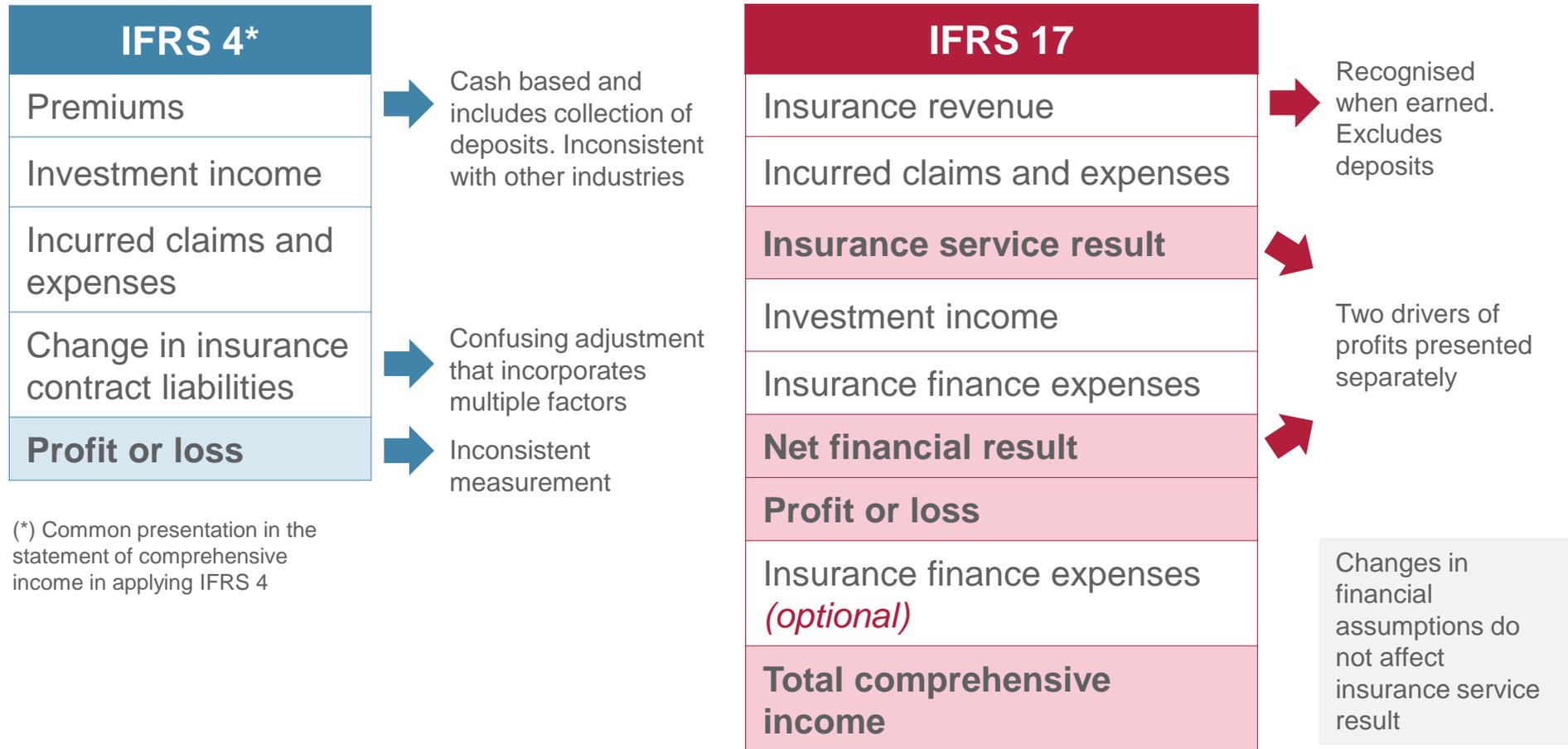
More useful  
and  
transparent  
information

- Current assumptions regularly updated
- Options and guarantees fully reflected
- Discount rates reflect characteristics of the insurance liability - risks not matched by assets will be reflected in the accounts

Consistent  
recognition of  
revenue and  
profits for  
insurance  
services

- Revenue recognition more consistent with IFRS 15
- Profits recognised as the insurance coverage is provided
- Additional metrics to evaluate performance

# Improved performance reporting



# What investors think about IFRS 17

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## 35 meetings

18 sell side, 8 buy side, 6 mixed groups  
3 credit rating agencies

## 153 investors and analysts

43% Europe, 38% Global,  
14% North America, 5% Asia Pacific

### Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures

### Areas of concern

- Entity-specific judgements
- Options

BUT disclosures will help to assess the effects of judgements and options on comparability

Insurance liabilities properly measured

Transparent costs of options and guarantees

Updated information on risk margins

Immediate recognition of onerous contracts

Ends up-front profit taking

Better information on profitability trends

# How we met the industry concerns

## Volatility

- Not all changes in estimates will immediately affect the P&L
- Variable fee approach
- Option for the presentation of some changes in financial assumptions (eg discount rates) in OCI

## Operational costs

- At transition, option to use alternative approaches (if full retrospective application is impracticable)
- Grouping contracts is permitted; similar profitability criterion not included in IFRS 17

# Unit of account—overview

- Each portfolio is divided into groups

<b>Group 1</b>	Profitable contracts that at initial recognition have <b>no significant possibility of becoming onerous</b> subsequently, if any
<b>Group 2</b>	<b>Other profitable</b> contracts, if any
<b>Group 3</b>	Contracts that are <b>onerous</b> at initial recognition, if any

- To provide trend information about the profitability of contracts written in different periods, each group can contain only contracts issued within the same year

# Why annual cohorts?

## Example 1

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- Timely recognition of losses

Y1	Y2	Y3	Y4	Y5	Total profit
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### With annual cohorts

Contracts written in Y1	30	30	(20)*	0	-	40
Contracts written in Y2	-	9	9	9	9	36
	<b>30</b>	<b>39</b>	<b>(11)</b>	<b>9</b>	<b>9</b>	<b>76</b>

### Without annual cohorts

Contracts written in Y1 and Y2	<b>30</b>	<b>36</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>76</b>
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\* Due to changes in expectations

# Why annual cohorts?

## Example 2

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- Preventing phantom profit\*

Y1	Y2	Y3	Y4	Y5	Total profit
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### With annual cohorts

Contracts written in Y1	30	30	30	30	-	120
Contracts written in Y2	-	9	9	9	9	36
	<b>30</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>9</b>	<b>156</b>

### Without annual cohorts

Contracts written in Y1 and Y2	<b>30</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>18</b>	<b>156</b>
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\* Contracts written in different years

# Insurers vs other industries

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	IFRS 4	Other industries	IFRS 17
Recognition of revenue	Varies by local practices	As service is provided	As service is provided
Recognition of losses on onerous contracts	Varies by local practices	When expected	When expected
Unit of account	Varies by local practices	Contract-by-contract basis	Grouping is permitted
Trend information about profitability	x	✓	✓

## How much will IFRS 17 cost insurers?

### Implementation costs

### Systems set-up

- Groups of contracts
- Track and store information
- Contractual service margin

### Process changes

- Accounting policies

### Education and communication

- Internal stakeholders
- Investor community

### Mitigation of costs

### Use of some Solvency II information

- Cash flows
- Discount rates
- Adjustments for risk

### Reduce need to produce non-GAAP information

### Liability adequacy test no longer needed

IFRS 17 will be costly to apply for insurers, but...

...creates some opportunities

- Enhanced integration between internal risk management, Solvency II and financial reporting
- For multinational companies, a common measure to assess the performance of subsidiaries

# A challenging implementation

Fundamental  
change for some  
companies

Significant  
operational  
implications

Transition from  
many different  
perspectives

## Tools for implementation support

- Dedicated webpage with materials (eg webcasts, articles) to support those applying IFRS 17
- Transition Resource Group (TRG)
  - public forum to discuss implementation questions
  - inform the Board about possible actions needed to address those questions (eg webinars, case studies)

## IFRS 15 (May 2014)

- Amendments to clarify how to:
  - identify a performance obligation;
  - determine whether a company is a principal or an agent; and
  - determine whether the revenue from granting a licence should be recognised at a point in time or over time.
- Additional reliefs to reduce cost and complexity for a company when it first applies IFRS 15

## IFRS 9 (July 2014)

- Complex Standard
- TRG on new impairment requirements only
- 1 issue raised with the Board
- No amendments were necessary

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