EFRAG
European Financial Reporting Advisory Group

EFRAG TEG meeting
23 November 2017
Paper 03-03
EFRAG Secretariat: Insurance team

Case Study for participants
IFRS 17 implementation impacts

Objective

1 The objective of this session is to obtain EFRAG TEG members' views on how to improve the case study developed by the EFRAG Secretariat that will be used as a supporting tool for developing the endorsement advice on IFRS 17 *Insurance Contracts.*

2 The case study was discussed at the EFRAG IAWG meeting on 14 November 2017. The EFRAG Secretariat will provide an oral update of the changes requested during that meeting.

Question to EFRAG TEG

3 Do you consider that the case study is sufficiently comprehensive to achieve a reliable understanding of the impacts of applying IFRS 17? Please identify any missing or redundant issues, and whether further guidance is needed on any issue.

Timeline

4 The overall timeline for completion of the case study is as follows, with specific dates to be established with each participant:

(a) End February 2018: agree portfolios with EFRAG Secretariat;

(b) March, April May: progress meetings with EFRAG Secretariat;

(c) End June 2018: final day for submission; and

(d) July 2018: follow up questions (if any).

EFRAG Secretariat availability

5 This case study has been developed by the EFRAG Secretariat as a supporting tool for developing the endorsement advice on IFRS 17 *Insurance Contracts*. The EFRAG Secretariat remains available during the full consultation period to respond to questions about applying the case study approach through email or conference call. The EFRAG Secretariat can be contacted through email or by phone:

(a) The EFRAG Secretariat insurance team:

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(ii) Sapna.heeralall@efrag.org;

(iii) Joachim.jacobs@efrag.org; and

(iv) Fredre.ferreira@efrag.org.

(b) By phone 00 32 (0)2 210.44.00.

The case study approach

6 In answering the case study, the following product category is used:

(a) Life and health contracts;

(b) Non-life contracts;

(c) Investment contracts;

(d) With-profit contracts;

(e) Unit-linked contracts;

(f) Reinsurance ceded; and

(a) Reinsurance assumed.

7 Participants in this case study are asked to undertake the following steps:

(a) **Step 1**: For each of the types of contracts described above which constitute more than 10% of your insurance liabilities, identify two or more representative portfolios of insurance contracts. Please discuss the selection with the EFRAG Secretariat insurance team before proceeding further.

(b) **Step 2**: Apply current GAAP accounting to all of the selected portfolios *as well as* the corresponding assets for their entire duration and quantify the results;[1]

(c) **Step 3**: Apply IFRS 17, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* accounting to all of the selected portfolios *as well as* the corresponding assets for their entire duration and quantify the results; and

(d) **Step 4**: Compare the results with your current accounting for the selected portfolios (quantitative and qualitative) and explain the differences by answering the questions below.

Overall testing principles

Principal testing period

8 All analysis is to be based on information used for the **2016** consolidated financial statements, except when specified otherwise.

Identification of testing portfolios

General

9 The EFRAG Secretariat is aware that the product categories may contain several different types of insurance products. In those cases, the selected portfolios should come from the largest insurance product within the product category (measured by looking at the size of the insurance liability - technical provision).

Consistency in the selection

10 With one exception, the selected portfolios (per product category) are used to test *all* requirements, no change in selection of portfolios is allowed depending on the requirements being tested. In case a particular requirement is not applicable to the portfolios selected, it is sufficient to mention so. Relying on this approach reduces the workload as the full analysis is done on a set of portfolios and not on different portfolios for each type of question.

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[1] Baseline scenario as defined in the EC's request for advice.

11 The sole exception to this testing principle relates to the scope of the Variable Fee Approach, where portfolios can be selected that in the testers' view should be accounted in accordance with that approach but fail eligibility for that approach.

Insurance revenue and investment income/expenses

12 In order to stress test insurance revenue and investment income/expense in a meaningful way, the case study asks to describe the quantitative impact of the different stress scenarios over the full duration of the liability portfolios (with a minimum of 5 years[2]). In addition to a run-off in an excel sheet, graphic representations are to be used to compare the base case with the different stress scenarios.

[2] Except where the full duration of the insurance portfolio is shorter than 5 years. In case the selected portfolios are based on an asset-cycle of three years, please explain two full cycles of three years, in particular explaining the transition between cycle 1 and 2.

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EFRAG Case Study on IFRS 17

Introduction and general description

1 Please provide the following details:

(a) The name of the entity you are responding on behalf of:

(b) Country where you are located (i.e. geographical location of the head office of the entity):

(c) Contact details, including e-mail address:

2 Provide a short description of the main businesses and type of insurance activities which your company is involved with:

Step 1: Identification of representative portfolios of insurance contracts

3 Identify each of your product types in accordance with the table below and

(a) Select two or more portfolios within each category for testing purposes; and

(b) Explain why you selected those portfolios (and why you rejected others).

4 The selected portfolios should be representative of each product category, i.e.:

(a) Their current measurement should be identical to the rest of the product category;

(b) The contract characteristics (e.g. options and guarantees included, investment component included, underlying assets, duration, ….) should be identical to the rest of the product category; and

(c) The IT systems supporting the portfolio should be identical to the rest of the product category.

	Weighting of testing portfolios selected compared to total insurance liabilities	**Reasons for selecting the portfolios**
Life and health contracts		
Non-life contracts		
Investment contracts		
With-profit contracts		
Unit-linked contracts		

	Weighting of testing portfolios selected compared to total insurance liabilities	**Reasons for selecting the portfolios**
Reinsurance Ceded		
Reinsurance Assumed		

Step 2: Application of current GAAP

5 Apply current GAAP accounting to all of the selected portfolios as well as the corresponding assets for their entire duration and quantify the results.

6 In doing so:

(a) The selected portfolios are run off in an excel sheet over their full duration with graphic representation of the profit or loss and other comprehensive income statements for their current accounting;

(b) The expected asset returns used are explained:

(i) By providing information on the asset types (bonds, equities, real estate,…) the returns represent. In case a composed return is used, the weighting of each asset category[3] is provided; and

(ii) By providing information on the discount rates used and how these have been determined.

Step 3: Application of new IFRS Standards

7 Apply IFRS 17, IFRS 15 and IFRS 9 accounting to all of the selected portfolios *as well as* the corresponding assets for their entire duration and quantify the results. For this purpose, please reset the opening balances to be IFRS 17 compliant as if IFRS 17 had always been applied.

Step 4: Comparison with current accounting and explanation of the differences

8 As part of this step, the differences between the current and the new accounting treatment are analysed.

Step 4.1. Pricing

Purpose: This part of the case study identifies the pricing methodologies of entities to achieve a better understanding of the difficulties in identifying onerous contracts.

9 For each of the selected portfolios (where relevant differences exist between contract types):

(a) Describe your pricing methodology;

(d) Do you price contracts at individual contract level or at a higher level of aggregation?

(b) Explain which components are included in setting a price;

(c) Specify whether expected asset returns are taken into account when setting a price for the contract;

[3] This information should be in line with the information provided in the IAWG Questionnaire.

(d) Generally, explain how direct and indirect costs are allocated to a group of insurance contracts;

(e) In particular, explain how fixed costs are allocated to a group of insurance contracts.

	Pricing methodology used/components of price
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

Step 4.2. Impact on the insurance market

10 For each of the selected portfolios explain how your pricing methodology will change, if at all, with the introduction of IFRS 17:

	New pricing methodology used/components of price with the introduction of IFRS 17	**Pricing methodology currently used/components of price as per above (Copy from above)**	**Quantification of change in pricing methodology used**	**Reason for change in pricing methodology**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				

Step 4.3. Transition

Purpose: This part of the case study identifies how the transition requirements will be applied to selected portfolios and the consequences for financial reporting.

11 For each portfolio, apply the grouping criteria in accordance with the transition requirements. Subsequently, indicate the transition methods you have selected to each specific group. When not applying the full retrospective method, explain the reasons why you have chosen the fair value or the modified retrospective method.

	Transition method used	**Weighting of transition method selected compared to total insurance liabilities.**	**Reasons for not applying the full retrospective method**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

12 For each portfolio and transition method applied:

(a) Quantify the impact on opening retained earnings; and

(b) Clarify the impact amount.

	Transition method used	**Impact on retained earnings**	**Clarification**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

13 For each of the selected portfolios, quantify which portfolios will be subsequently measured:

(a) In accordance with the General Model;

(b) In accordance with the Variable Fee Approach; and

(c) In accordance with the Premium Allocation Approach.

	General Model	**VFA**	**PAA**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			
Total			

Step 4.4 Overall measurement

13 For each portfolio selected, please provide the following information:

	Current situation			**Applying new requirements**		
	Measurement of the portfolios	Discount rate used (if any)	Duration	Measurement of the portfolios	Discount rate used[4]	Duration
Life and health contracts						
Non-life contracts						
Investment contracts						
With-profit contracts						
Unit-linked contracts						
Reinsurance Ceded						
Reinsurance Assumed						

[4] When a yield curve is used, disclosure of the full yield curve is asked.

	Current situation			**Applying new requirements**		
	Measurement of the portfolios	Discount rate used (if any)	Duration	Measurement of the portfolios	Discount rate used[4]	Duration
Total						

Step 4.5. Scope of Variable Fee Approach

14 (A) Do you agree with the scope of the Variable Fee Approach?

☐ Yes ☐ No

(B) If no, please explain what eligibility conditions you would apply to the Variable Fee Approach?

14 Define the most representative contract type that in your view should be accounted for in accordance with the Variable Fee Approach but is not eligible for applying that approach.

15 Apply your current accounting requirements to the contract type and compare it to the accounting in accordance with the General Model under IFRS 17 as well as to the Variable Fee Approach. In doing so, provide the following information:

(a) Under current accounting, are the underlying assets directly and permanently related to the liabilities, or are they part of a general fund;

☐ Assets directly related to liabilities ☐ General fund

(b) Under current accounting, how is the asset return determined that is incorporated in the insurance liability calculation;

(c) Compare the profit or loss and CSM pattern for the *entire duration* of the contract:

(i) Under current accounting;

(ii) In accordance with the General Model under IFRS 17; and

(iii) In accordance with the Variable Fee Approach under IFRS 17.

	Current accounting	**General Model**		**VFA**	
	P&L pattern	**P&L pattern**	**CSM pattern**	**P&L pattern**	**CSM pattern**
Life and health contracts					
Non-life contracts					
Investment contracts					
With-profit contracts					
Unit-linked contracts					
Reinsurance Ceded				N/A	N/A

	Current accounting	General Model		VFA	
	P&L pattern	P&L pattern	CSM pattern	P&L pattern	CSM pattern
Reinsurance Assumed				N/A	N/A

(d) Explain the differences between each of the profit or loss patterns.

	Explanation of difference
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

(e) In case you think the CSM pattern under the Variable Fee Approach does not reflect your business model, please explain the reasons why.

	Reasons why Variable Fee Approach CSM pattern does not reflect your business model
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	

Step 4.6. Separating components of insurance contracts

Purpose: This part of the case study identifies the difference in separating components of insurance contracts applying both IFRS 17 and current requirements.

16 Applying your current accounting requirements to the selected portfolios, do you separate any components from your insurance liabilities and measure them differently? In case you do, please compare these separate components to the total insurance liabilities.

	Components separated Y/N	If yes, nature of components separated today	Size of the separated components in absolute numbers	Size of the separated components in relative numbers
Life and health contracts				

	Components separated Y/N	**If yes, nature of components separated today**	**Size of the separated components in absolute numbers**	**Size of the separated components in relative numbers**
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				
Total				

17 Applying IFRS 9, 15 and 17 to the selected portfolios, identify the separate components from your insurance liabilities. In addition, please compare these separate components to the total insurance liabilities.

	IFRS 9 component Description	**IFRS 9 component Quantitative – relative numbers**	**IFRS 15 component Description**	**IFRS 15 component Quantitative – relative numbers**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				
Total				

Step 4.7 Level of aggregation

Purpose: This part of the case study identifies the level of aggregation used measuring insurance liabilities.

18 IFRS 17 describes portfolios as comprising contracts subject to similar risks and managed together. In defining the portfolios for this case study, did you choose portfolios that are aligned with the IFRS 17 requirements, or not? Consequently, for each portfolio selected, indicate whether the portfolio selected is smaller or larger than required by IFRS 17?

	Are portfolios in line with IFRS 17? Y/N - Clarification
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

19 For each portfolio selected, explain how you group the individual contracts both under current accounting and when applying IFRS 17.

	Grouping methodology using current accounting	**When you pool risks across business lines, indicate the business lines that are pooled together and explain the reasons why.**	**Grouping methodology using IFRS 17**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

20 For each portfolio selected:

(a) Indicate the number of groups you have determined; and

(b) Compare with the grouping under current accounting and clarify the difference.

	Number of groups using IFRS 17	**Number of groups using current practice**	**Clarification**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

21 For each portfolio selected:

(a) How many of the groups are onerous;

(b) What is the amount of loss incorporated in those groups;

(c) How much of that overall loss is currently covered by risk pooling;

(d) What is the result of the liability adequacy test of these groups relying on IFRS 4.

	Number of groups onerous	**Amount of loss**	**Of which x% is currently covered by risk pooling**	**Liability adequacy test** **Pos/Neg**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				

Step 4.8. Economic mismatches[5]

Purpose: This part of the case study aims at identifying economic mismatches, quantify the impact these mismatches will have on the financial statements and any strategy to mitigate these economic mismatches.

15 For each portfolio selected:

(a) Define the economic characteristics of the liabilities (duration, transactional currency, jurisdiction[6] issued, fixed or variable guarantees, sensitivity to optionality…);

(b) Taking into account the fund where the assets are being held (see paragraph 13 above), define the economic characteristics of the covering assets (duration, transactional currency, jurisdiction[7] located, fixed or variable interest rates, sensitivity to optionality, sensitivity to re-allocation…)

	Economic characteristics of the insurance liabilities	**Economic characteristics of the supporting assets**		
		Dedicated fund	**General fund**	**Surplus assets**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				

16 For each portfolio selected:

(a) Quantify any economic mismatch between the insurance liabilities and the supporting assets;

[5] The difference that arises if the values of assets and liabilities respond differently to changes in economic conditions. Also refer to footnote 6 below.

[6] Within the same currency (e.g. EURO), differences exist between interest rates being applied by country.

[7] When premiums of liabilities issued in country A are invested in assets of country B, an economic mismatch is created.

(b) Compare the amount of any economic mismatches with the amount of any accounting mismatches[8] - when applying IFRS 17 - identified in paragraph 18 below;

(c) Please explain what strategy, if any, is used to minimise the existence of the economic mismatch.

	Accounting mismatch under IFRS 17 (quantified)	**Economic mismatch (quantified)**	**Strategy used to address the economic mismatch**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

Step 4.9. Accounting mismatches[9]

Purpose: This part of the case study identifies how the existence of accounting mismatches is going to evolve from the current situation to application of IFRS 17.

17 For each portfolio selected:

(a) Identify the asset-types that support those liabilities and how these are accounted for today and in the future;

(b) Identify whether these assets are held in:

(i) A general fund;

(ii) A dedicated asset fund;

(iii) As surplus assets.

[8] Please note that accounting mismatches and economic mismatches may overlap.

[9] The difference that arises if changes in economic conditions affect assets and liabilities to the same extent, but the carrying amounts of those assets and liabilities do not respond equally to those economic changes because they are measured on different bases. For example an accounting mismatch will occur when a liability is measured at a risk-adjusted present value of future cash flows with changes in the carrying amount in the income statement while the assets backing the liability are measured at fair value with changes in the carrying amount in other comprehensive income, assuming the asset and liability are being held in the same jurisdiction.

(c) Explain how the asset portfolios differ from the EIOPA reference portfolios to calculate volatility[10] adjustments;

(d) Clarify whether during the life of the insurance liabilities you apply asset reallocation, if so, between which asset types. Quantify the effect.

	Asset-types	**Fund where the assets are held in**	**Difference with EIOPA reference portfolio for volatility adjustment**	**Asset-reallocation used?** **Between which asset-types and how measured?**	**Asset-reallocation** **Quantify effect**
Life and health contracts					
Non-life contracts					
Investment contracts					
With-profit contracts					
Unit-linked contracts					
Reinsurance Ceded					
Reinsurance Assumed					

18 For each portfolio selected:

(a) Identify which accounting policy choice for insurance finance income or expense under IFRS 17 you apply;

(b) Compare the resulting accounting mismatch (if any) with the accounting mismatch under current accounting.

	Accounting policy option used under IFRS 17	**Accounting mismatch under current accounting (quantified)**	**Accounting mismatch under IFRS 17 (quantified)**	**Difference**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				

[10] Note that volatility can be caused by both economic and accounting mismatches. For the purposes of this sub-question, no separation of the effects is asked for.

	Accounting policy option used under IFRS 17	Accounting mismatch under current accounting (quantified)	Accounting mismatch under IFRS 17 (quantified)	Difference
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				

Step 4.10 Hedge accounting

Purpose: This part of the case study is designed to establish whether insurers intend to apply hedge accounting in the future.

22 When applying IFRS 17, IFRS 15 and IFRS 9, do you intend to apply hedge accounting for all or particular insurance liabilities?

Intention to apply hedge accounting	Y/N
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

23 In case you have no intention to apply hedge accounting, please explain the reasons why.

Step 4.11 Long-term liability-driven business model

Purpose: This part of the case study is designed to establish how the long-term liability-driven business model will be reflected in the financial statements.

19 For each of the selected portfolios, please explain your business model and how it is reflected under current GAAP.

	Explanation of business model
Life and health contracts	
Non-life contracts	
Investment contracts	

	Explanation of business model
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

20 (A) Do you expect that you will continue to provide non-GAAP measures to explain the financial performance and financial position of your business after the application of IFRS 17?

☐ Yes ☐ No ☐ Do not know

(B) If yes, by using the five most important non-GAAP measures going forward, please explain why and to what extent you think IFRS 17 will be inadequate in explaining performance by.

Number	Non-GAAP measure	Reason for future use

21 For each portfolio and the assets backing that portfolio, to what extent do you think that IFRS Standards properly reflect the business model? Please explain both strengths and weaknesses.

	IFRS 17 accounting for liabilities	IFRS 9 accounting for assets
Life and health contracts		
Non-life contracts		
Investment contracts		
With-profit contracts		
Unit-linked contracts		
Reinsurance Ceded		
Reinsurance Assumed		

Step 4.12. Insurance revenue

Purpose: This part of the case study considers revenue recognition principles and how they compare to the current presentation of insurance "revenue" or any other KPI that is used to reflect their performance.

24 For each portfolio selected:

(a) Clarify your methodology to be used under IFRS 17 in assigning coverage units over the *full* life of the contracts involved;

(b) Quantify the outcome for the entire duration of the contracts;

(c) Compare this with your previous methodology for recognising "revenue" or any other KPI used under your current accounting requirements;

(d) Quantify the outcome.

	IFRS 17 revenue recognition (coverage units pattern)	**Revenue pattern over time (quantified)**	**Current accounting revenue /other KPI recognition**	**Revenue pattern over time (quantified)**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				

22 For each portfolio selected, do you consider that IFRS 17, IFRS 9 and IFRS 15 revenue recognition principles will deliver consistent and understandable reporting of financial performance for insurance contracts within a group? Please explain.

	IFRS 17 revenue recognition: qualification of the comparison with current accounting
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	

	IFRS 17 revenue recognition: qualification of the comparison with current accounting
Reinsurance Ceded	
Reinsurance Assumed	

Step 4.13 Insurance finance income/expenses

Purpose: This part of the case study considers how insurance finance income/expenses are presented when applying IFRS 17. Where differences occur, please explain whether these are economic mismatches, accounting mismatches or a result of operations.

23 Please refer to the data gathered with regard to economic and accounting mismatches quantified.

24 For each portfolio selected:

(a) Explain your current methodology to determine insurance finance expense over the *full* life of the contracts involved;

(b) Quantify the outcome over the *full* life of the contracts involved;

(c) Compare this with the IFRS 17 methodology to determine finance income over the *full* life of the contracts involved;

(d) Quantify the outcome over the *full* life of the contracts involved.

25 In addition to the above, apply current GAAP and quantify how much of the difference is an economic mismatch, an accounting mismatch or the result of operating decisions. Refer to paragraphs 15 - 18 for the difference between accounting and economic mismatches.

Current GAAP	**Finance expense, methodology**	**Finance income, methodology**	**Quantification Finance expense**	**Quantification Finance income**	**Type of difference**
Life and health contracts					
Non-life contracts					
Investment contracts					
With-profit contracts					
Unit-linked contracts					
Reinsurance Ceded					
Reinsurance Assumed					

26 In addition to paragraph 24 above, apply IFRS 17 and quantify how much of the difference is an economic mismatch, an accounting mismatch or the result of operating decisions.

IFRS 17	**Finance expense, methodology**	**Finance income, methodology**	**Quantification Finance expense**	**Quantification Finance income**	**Type of difference**
Life and health contracts					
Non-life contracts					
Investment contracts					
With-profit contracts					
Unit-linked contracts					
Reinsurance Ceded					
Reinsurance Assumed					

27 For each portfolio selected, do you consider that IFRS 17, IFRS 9 and IFRS 15 insurance finance income and expense principles will deliver consistent and understandable reporting of financial performance for insurance contracts within a group? Please explain.

	IFRS 17 finance income and expense recognition: qualification of the comparison with current accounting
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

Step 4.14 Stress test

28 Consider the quantitative outcomes for insurance revenue and insurance finance income/expenses, for all portfolios, asked for in paragraphs 24 (b) and 24 (b) above. Consider these outcomes as the reference scenario.

29 Apply the following stress tests (one by one) to the underlying data of the *current GAAP*:

(a) All yield-curves used down with 100bps;

(b) All yield-curves used up with 100bps;

(c) Overall equity investments down with 30%;

(d) Overall real estate investments down with 30%;

(e) Overall corporate spread compared to government bonds up with 50bps; and

(f) Overall corporate spread compared to government bonds down with 50bps.

30 Describe the quantitative impact for each of the portfolios over the *full* duration (minimum 5 years):

	Stressor compared to reference scenario – current GAAP	**Quantify impact**	**Explain differences**
Life and health contracts			
Non-life contracts			
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

25 Apply the stress tests defined in paragraph 29 (one by one) to the underlying data applying IFRS 17, IFRS 15 and IFRS 9.

31 Describe the quantitative impact for each of the portfolios over the full duration (minimum 5 years):

	Stressor compared to reference scenario – IFRS 17	**Quantify impact**	**Explain differences**
Life and health contracts			
Non-life contracts			

	Stressor compared to reference scenario – IFRS 17	**Quantify impact**	**Explain differences**
Investment contracts			
With-profit contracts			
Unit-linked contracts			
Reinsurance Ceded			
Reinsurance Assumed			

32 For each of the stress tests applied, explain qualitatively how, in your view, an appropriate outcome should look like.

(a) Explain why; and

(a) Compare your ideal outcome with the outcome based on

(i) current GAAP; and

(i) IFRS 17.

	Ideal stress test outcome	**Why?**	**Compare to current GAAP outcome**	**Compare to IFRS 17 outcome**
Life and health contracts				
Non-life contracts				
Investment contracts				
With-profit contracts				
Unit-linked contracts				
Reinsurance Ceded				
Reinsurance Assumed				

Step 4.15. Sharing of risks

Purpose: This section of the case study aims at identifying and measuring the business practice of risk sharing.

33 For each portfolio selected:

(a) Identify whether the portfolios share risks with other insurance liabilities; and

(b) Quantify the effect of risk sharing during 2016.

	Do liabilities share risks with other liabilities? Y/N	**Quantify the effect during 2016**
Life and health contracts		
Non-life contracts		
Investment contracts		
With-profit contracts		
Unit-linked contracts		
Reinsurance Ceded		
Reinsurance Assumed		
Total		

Step 4.16. Costs and benefits

Purpose: This section of the case study is designed to determine the effect IFRS 17 will have on IT systems and financial reporting processes. It will also assist in understanding what the incremental costs will be for implementing IFRS 17. Furthermore, it is designed to highlight the expected benefits to be obtained from implementing IFRS 17.

4.16.1. Costs

26 To which extent will you rely on external advice and coaching? Quantify the estimated one-off cost either in absolute values or as a percentage of total implementation cost.

External advice/coaching: percentage of total cost or	**%**
Subtotal 1: External advice/coaching – absolute value	

Compliance exercise or strategic review of systems?

27 Do you see the implementation of IFRS 17 as a compliance exercise or as an opportunity to strategically review your internal systems? Please explain.

Analysis and classification of insurance contracts

28 Estimate the initial one-off costs you will incur for the analysis and classification of insurance contracts. Specify whether these are internal or external costs.

Internal costs	
External costs	
Subtotal 2	

Actuarial calculations

29 Please indicate whether you will rely on in-house development or not and quantify the total one-off cost related to it.

	In-house actuarial calculations	Reliance on external solution for actuarial calculations
Total cost quantified	**3.A.**	**3.B.**
Subtotal 3= 3.A + 3.B		

Technical calculations[11]

30 Please indicate whether you will rely on in-house development or not and quantify the total one-off cost related to it.

	In-house actuarial calculations	Reliance on external solution for actuarial calculations
Total cost quantified	**4.A.**	**4.B.**
Subtotal 4= 4.A+ 4.B		

Day to day accounting and adjusting insurance amounts

31 Estimate the additional ongoing costs necessary to run your accounting systems in line with IFRS 17 requirements and account for adjustments on an ongoing basis.

Subtotal 5	

Developing the accounting ledger

32 Indicate how much of your current accounting ledger you can reuse in applying IFRS 17 (as a percentage).

%

33 Estimate the cost savings expected from reusing your current accounting ledger and the one-off costs necessary to adapt your accounting ledger.

(Subtotal 6.A: Cost saving)	
Subtotal 6.B: One-off costs	

Filing of reports

34 Estimate the one-off costs necessary to convert current financial reports to reports in line with IFRS 17.

Subtotal 7	

Reliance on Solvency II

35 In applying Solvency II, did you use the Standardised Method or the Advanced Approach?

[11] Technical calculations are discounting, scenario analysis, projections of cash flows. Some entities will include this part into the actuarial calculations.

36 Estimate the one-off and ongoing costs of applying the subdivision of products into subgroups and annual cohorts.

One-off costs	
Ongoing costs	
Subtotal 8	

37 Estimate the one-off costs for providing comparative information for the year preceding the application date of IFRS 17.

Subtotal 9	

38 Estimate the cost savings you can realise by relying on processes and IT systems that were developed for Solvency II purposes when implementing IFRS 17.

(Subtotal 10)	

39 For insurance entities operating in multiple jurisdictions, estimate the cost savings expected from the application of uniform accounting policies under IFRS 17.

(Subtotal 11)	

<u>Other costs</u>

40 Are there other costs that have not been assigned to any of the above categories? If so, please specify these.

41 Estimate the amount of these other costs.

Subtotal 12	

<u>Overall total</u>

42 Estimate the overall total of your costs for implementing IFRS 17.

Type of costs	Subtotals	Amount in Euro
One-off costs	Sum of subtotals 1-4, 6.B-9 and 12	
Ongoing costs	Subtotal 5	
(Cost savings)	Sum of subtotals 6.A and 10-11	
Overall total		

43 In your view, is the complexity of the standard justified in terms of costs of application, in particular regarding grouping? Please explain.

4.16.2. Benefits

44 For each of the benefits highlighted below please answer:

(a) Yes, if you expect this to be a benefit, arising from the implementation of IFRS 17, for your organisation; or

(b) No, if you do not expect this to be a benefit, arising from the implementation of IFRS 17, for your organisation.

Expected benefits for preparers of financial statements	**Yes**	**No**
More comparable financial reporting information IFRS 17 removes the practice of using non-uniform accounting policies for insurance contracts. Consequently, IFRS 17 is expected to eliminate much of the diversity in practice for insurance contracts with similar characteristics and economic features. When applying IFRS 17, a multinational entity will apply a consistent accounting model for similar insurance contracts, increasing the comparability of its results by product and by geographical area between group entities.		
Availability of options Both for contracts with and without direct participation features, IFRS 17 offers accounting policy choices for dealing with insurance finance income and expense. Entities may therefore choose the option which best reflects their economic substance and reduce costs.		
Transition relief In order to mitigate costs IFRS 17 allows entities to not apply the Standard retrospectively but rather provides two alternative methods namely the fair value approach and the modified retrospective approach. This could lead to a reduction of costs of implementing the Standard.		
Reduced cost of capital Increased comparability of insurance entities with other industries and entities across various jurisdictions amongst users of financial statements could potentially reduce the cost of capital charged by capital providers.		
Uniform Chart of Accounts By providing entities with a reference to one accounting standard, IFRS 17 provides entities with the opportunity to align their chart of accounts throughout the group and leverage from the chart of accounts used for statutory reporting purposes. This could lead to information being at hand in a timely manner and could potentially enhance the understanding of what is included in the chart of accounts.		
Level of aggregation IFRS 17 allows entities to account for insurance contracts in the way that they are managing their contracts which could be higher than an individual contract level. This could potentially lead to less groups of contracts to be identified as IFRS 17 is allowing the portfolio approach to groups of contracts with the same risks and characteristics.		
Resolving accounting mismatches IFRS 17 allows for entities to disaggregate insurance finance income or expenses either in profit or loss or disaggregating it between other comprehensive income and profit or loss to reduce or fully eliminate accounting mismatches with the assets invested in.		
Reflecting the economics of the business		

Expected benefits for preparers of financial statements	**Yes**	**No**
IFRS 17 allows for entities to make their long-term business model more understandable which could reduce the dependence on certain non-GAAP measures currently used by entities to explain their business.		
Current accounting By using updated assumptions as required by IFRS 17, entities could have more current information at hand which could enable them to identify products that become onerous as they arise. This also includes accounting for all rights and obligations (such as options and guarantees) so that entities have information at hand of what their true financial position is at any reporting date.		
Reasonable approximation under the Premium Allocation Approach IFRS 17 allows an entity to simplify the measurement of some groups of insurance contracts by applying a premium allocation approach. This could lead to a reduction in complexity and costs of implementing the Standard.		
Specific measurement guidance The new Standard provides entities with more prescriptive requirements around measurement which could lead to a more uniform measurement basis when comparing liabilities between group entities.		
Enhanced integration between risk management and financial reporting One of the requirements under IFRS 17 is how risk is managed by entities, therefore this could provide an opportunity for risk management and financial reporting teams to integrate which could potentially integrate management and financial reporting therefore reducing the amount of work to prepare financial and management reports.		

45 Do you consider that, compared to the current situation:

(a) IFRS 17 could potentially improve the quality of financial information through its extensive disclosure requirements? Please explain.

(b) the application of IFRS 17 could lead to an increased understanding of the insurance sector by capital providers? Please explain.

(c) IFRS 17 could lead to possible increased attractiveness of the insurance sector to investors? Please explain.

(d) IFRS 17 could have a possible positive effect on the cost of capital of insurers? Please explain.

46 Are there any other benefits that you expect from the implementation of IFRS 17?

Step 4.17. Overall impact

Purpose: This section of the case study is designed to determine the overall impact IFRS 17 will have on European insurers.

34 For each portfolio selected, explain how IFRS 17 will impact your range of products (by type) offered to policyholders:

	Explanation of proposed changes in types of products offered to policyholders	**Quantitative impact of proposed changes in types of products offered to policyholders**
Life and health contracts		
Non-life contracts		
Investment contracts		
With-profit contracts		
Unit-linked contracts		
Reinsurance Ceded		
Reinsurance Assumed		

47 For each portfolio selected, quantify the impact on regulatory capital of your intended changes in range of products.

	Impact on regulatory capital (+/- absolute amounts)	**Impact on Solvency II ratio (as a roll-over)**
Solvency II ratio (opening balance)	N/A	
Life and health contracts		
Non-life contracts		
Investment contracts		
With-profit contracts		
Unit-linked contracts		
Reinsurance Ceded		
Reinsurance Assumed		
Total impact/Solvency II ratio closing balance		

48 In your view, how will IFRS 17 affect, if at all, the competitiveness of European insurers to major competitors outside Europe? Please explain.

49 In explaining, please provide information on the competing GAAP used and how it achieves a competitive advantage for your competitors.

	Competing GAAP	**Competing GAAP competitive advantage**
Life and health contracts		
Non-life contracts		
Investment contracts		
With-profit contracts		
Unit-linked contracts		
Reinsurance Ceded		
Reinsurance Assumed		

50 In your view, does IFRS 17 take into account the specificities of the insurance sector? Please explain.

	Industry specificities considered/not considered
Life and health contracts	
Non-life contracts	
Investment contracts	
With-profit contracts	
Unit-linked contracts	
Reinsurance Ceded	
Reinsurance Assumed	

51 For the groups identified in questions 18 - 21, is the level of aggregation under IFRS 17 striking the right balance between the usefulness of the information and the complexity and costs of implementation?

☐ Yes ☐ No ☐ Do not know

Please clarify your answer:

52 Would you have to develop new IT systems in order to identify and manage onerous groups? Explain why.

53 If you identify future/fulfilment cash flows at a higher level of aggregation than group level, explain your allocation process of those cash flows to particular groups.

35 (A) Do you think that IFRS 17 will result in a change in investment strategy?

☐ Yes ☐ No ☐ Do not know

(B) If so, please explain per liability class and type of asset used.

	Asset-types (see paragraph 17 above)	**Quantify the invested amounts**	**Expected asset investments**	**Quantify the invested amounts**	**Clarify the difference (qualitative)**
Life and health contracts					
Non-life contracts					
Investment contracts					
With-profit contracts					
Unit-linked contracts					
Reinsurance Ceded					
Reinsurance Assumed					