Case Study for participants
IFRS 17 implementation impacts

Objective

1 The objective of this session is to obtain EFRAG TEG members' views on the updated case study, considering the comments received during the IAWG meeting of November 2017 and subsequent conference calls with a number of IAWG members. Any further comments from members of the EFRAG IAWG will be provided at the EFRAG TEG meeting.

Question to EFRAG TEG

2 Do you have any further comments before this case study is used for assessing the impact of IFRS 17 as part of the endorsement process?

Timeline

3 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) 15 June 2018: final day for submission; and
- (d) July 2018: follow up questions (if any).

EFRAG Secretariat availability

4 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 insurance team can be contacted through email (email – IFRS17Secretariat@efrag.org) or by phone (+32 (0)2 210.44.00).

The case study approach

5 In answering the case study, the following product categories[1] are used:

- (a) Life and health contracts with direct participation features (includes with-profit contracts);
- (b) Life and health contracts without direct participation features;

[1] Please consult Appendix I for guidance on the product categories.

(c) Non-life contracts;

(d) Investment contracts with discretionary participation features;

(e) Unit-linked contracts (insurance);

(f) Reinsurance ceded; and

(a) Reinsurance assumed.

6 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 (except for reinsurance ceded), 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 (with a minimum of 5 years) and quantify the results;[2]

(c) **Step 3**: Apply IFRS 17 and IFRS 9 *Financial Instruments* to all of the selected portfolios *as well as* the corresponding assets for their entire duration (with a minimum of 5 years) and quantify the results. Respondents are not required to apply IFRS 15 *Revenue from Contracts with Customers*, except to answer Step 4.6 Separating components from insurance contracts; 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

Historical information and new business

7 The data used for the case study consist of both historical data and new business being added. Because information on new business being added may depend heavily on the assumptions used, it is asked that both components are presented separately, except where specified otherwise.

8 The 2015 consolidated financial statements are treated as the comparative period to the first annual reporting period under IFRS 17. Contracts in force are determined at the end of the 2015 reporting period, contracts added during 2016 and following years are considered as new business.

EFRAG Case study	Implementation IFRS 17
31 December 2015	31 December 2020

Separating new business from historical information

9 When adding new business to the exercise, please:

(a) Specify the relative volume of new business compared to the existing business and how you expect these respective volumes to change over the duration of the case study;

(b) Describe the extent to which the product characteristics of the new business are similar or different to the existing business;

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

(c) Describe the expected profitability (both under current GAAP and IFRS 17) of the new business compared to the existing business;

(d) Describe all other necessary information (for example, financial or insurance technical assumptions used in defining new business) required to assess the extent to which new business is similar or different to existing business;

(e) Present new business separately from existing business, except where asked otherwise.

Identification of testing portfolios

General

10 If one of the above product categories represents less than 10% of your business (except reinsurance ceded) please ignore this product category for the purpose of this case study.

11 The EFRAG Secretariat is aware that the product categories as described above may contain several different types of insurance products. In order to allow for a representative outcome, the selected portfolios should come from the largest insurance product within the product category (measured by the size of the insurance liability - technical provision).

Consistency in the selection

12 With one exception, the selected portfolios (per product category) are used to test *all* requirements, no change in selection of portfolios is allowed for any specific requirements being tested. In case a particular requirement is not applicable to the portfolios selected, it is sufficient to mention so.

13 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

14 In order to test the sensitivity of insurance revenue and investment income/expense in a meaningful way, the case study asks to describe the quantitative impact of the different sensitivity factors over the full duration of the liability portfolios (with a minimum of 5 years). 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. Also, a stress test is included to learn the impact of a financial stress scenario on net profit before tax and other components of equity under both current and new IFRS 17 requirements.

Guidance

15 Guidance for some of the questions is included in the Appendix I to this document.

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 head office is located:

(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 Appendix 1 and

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

(b) Explain why you selected those portfolios.

4 The selected portfolios should be representative of each product category and come from the largest insurance product in each of the categories, i.e.:

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

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

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

Product category/ portfolio	Weighting of testing portfolios selected compared to total insurance liabilities	Reasons for selecting the portfolios
Category 1, portfolio1		

Step 2: Application of current GAAP

5 Apply current GAAP accounting to each of the selected portfolios as well as the corresponding assets for their entire duration (minimum 5 years) and quantify the results.

6 In doing so:

(a) The selected portfolios are run off in an excel sheet over their full duration (minimum 5 years) 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, etc) the returns represent. In case a composed return is used, the weighting of each asset category 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 and IFRS 9 to each of the selected portfolios *as well as* the corresponding financial assets for their entire duration and quantify the results. Apply either the full retrospective method, the modified retrospective method or the fair value approach to the selected portfolios.

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

8 This step focusses on the differences between the current and the IFRS 17 accounting treatment and assessed the impact. It also considers other issues arising from IFRS 17.

Step 4.1. Pricing

Purpose: This question sets out a qualitative baseline on current pricing methodologies for insurance contracts. Its aim is to identify the components included in the price as well as their relative importance in the overall price. The pricing methodology provides the necessary background to understand how IFRS 17 requirements may affect pricing (if at all).

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

(a) Describe your pricing methodology;

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

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

(d) Specify whether and how expected asset returns are considered when setting a price for the contract; and

(e) Generally, explain how under current practice (in)direct and fixed costs are allocated to a number of insurance contracts.

(See the guidance provided in paragraph 3 of Appendix I.)

Product category/ portfolio	Pricing methodology used/components of price
Category 1, portfolio1	

Purpose: This question aims at identifying the qualitative impact of the use of annual cohorts and the grouping requirements of IFRS 17 on the pricing methodology of insurance entities.

10 For each of the selected portfolios, please describe how the use of annual cohorts and the grouping requirements of IFRS 17 affect, if at all, your pricing methodologies (see the guidance provided in paragraph 4 of Appendix I).

Product category/ portfolio	Expected impact of annual cohorts/grouping on pricing methodology

Product category/ portfolio	Expected impact of annual cohorts/grouping on pricing methodology
Category 1, portfolio1	

Step 4.2. Impact on the insurance market

Purpose: This question is designed to identify whether and how the insurance market will react and align their pricing strategy in response to the introduction of IFRS 17.

11 For each of the selected portfolios, do you expect that IFRS 17 will change your current pricing methodology? If so, please indicate how IFRS 17 will change your current pricing methodology as per paragraph 9 above and quantify the difference (see the guidance provided in paragraph 5 of Appendix I).

Product category/ portfolio	New pricing methodology used/components of price with the introduction of IFRS 17	Pricing methodology currently used/components of price as per above *(As per paragraph 9 above)*	Quantification of change in pricing methodology used (%)	Reason for change in pricing methodology
Category 1, portfolio1				

Step 4.3. Transition

Purpose: This question aims to understand the choices made with respect to transition for the selected portfolios.

12 For each selected portfolio indicate the transition method you applied. When not applying the full retrospective method, explain the reasons why you have chosen the fair value or the modified retrospective method.

Product category/ portfolio	Transition method used	Reasons for not applying the full retrospective method
Category 1, portfolio1		

Purpose: This question aims at understanding the quantitative impact of transition on opening retained earnings and any other relevant components of equity as at 1 January 2016.

13 For each portfolio and transition method applied (see the guidance provided in paragraph 6 of Appendix I):

(a) Quantify the impact on opening retained earnings and other components of equity under current GAAP; and

(b) Explain the impact amount.

Product category/ portfolio	Transition method used	Impact on retained earnings	Impact on other components of equity	Explanation of impact
Category 1, portfolio1				

Purpose: The answer to this question provides information to the measurement model used for the selected portfolios.

14 For each of the selected portfolios, identify which portfolios will be subsequently measured in accordance with the:

(a) General Model;

(b) Variable Fee Approach; and

(c) Premium Allocation Approach.

Product category/ portfolio	General Model	VFA	PAA
Category 1, portfolio1			

Step 4.4 Overall measurement

Purpose: This question identifies the amounts of the insurance liability for the selected portfolios under both the current GAAP and IFRS 17 as at 1 January 2016. It highlights differences in inputs such as discount rate and the duration of the liability used in arriving at the amount calculated for the specific portfolio.

15 For each portfolio selected, please provide the following information as at **1 January 2016** – opening balance.

	Current situation			Applying IFRS 17		
Product category/ portfolio	Measurement of the portfolios *(EUR)*	Discount rate used (if any)	Liabilities duration	Measurement of the portfolios *(EUR)*	Discount rate used[3]	Liabilities duration
Category 1, portfolio1						

Purpose: This question specifies the insurance liability amounts recorded for the selected portfolios under both the current GAAP and IFRS 17 for a period of 5 years up to 31 December 2020.

16 For each portfolio selected, please provide the following information for every year until at least the closing balances as at **31 December 2020**:

	Current situation			Applying IFRS 17		
Product category/ portfolio	Measurement of the portfolios *(EUR)*	Discount rate used (if any)	Liabilities duration	Measurement of the portfolios *(EUR)*	Discount rate used	Liabilities duration
Category 1, portfolio1						

Purpose: The aim of this question is to identify changes in the contract boundary compared to the current situation.

[3] When a yield curve is used, please provide the full yield curve.

17 For each of the portfolios identified, please describe qualitatively the changes in contract boundary you have considered.

Product category/ portfolio	Changes in contract boundary IFRS 17 compared to current situation
Category 1, portfolio1	

Step 4.5. Scope of Variable Fee Approach

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

☐ Yes ☐ No

(B) Please explain the reasons for your answer.

19 If you answered NO to question 18(A), describe 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 that approach. 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) Explain the reasons why the contract fails the eligibility conditions of the Variable Fee Approach.

(b) 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

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

(d) Compare the insurance result (see the guidance provided in paragraph 7 of Appendix I) and CSM recognition 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	
Product category/ portfolio	Insurance result *(EUR)*	Insurance result *(EUR)*	CSM allocation *(EUR)*	Insurance result *(EUR)*	CSM allocation *(EUR)*
Product description					

(e) Explain the differences between each of the insurance result patterns over time.

Product category/ portfolio	Explanation of difference
Product description	

(f) In case you think the CSM pattern under the General Model does not reflect your business model, please explain the reasons why.

Product category/ portfolio	Reasons why General model CSM pattern does not reflect your business model
Product description	

Step 4.6. Separating components of insurance contracts

Purpose: This question identifies current practices in separating components of insurance contracts.

20 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.

Product category/ portfolio	Components separated *Y/N*	If yes, nature of components separated today	Size of the separated components in absolute numbers *(EUR)*	Size of the separated components in relative numbers compared to total liability *(EUR)*
Category 1, portfolio1				

Purpose: This question identifies the impact of IFRS 17 requirements to separate components of insurance contracts.

21 Applying IFRSs 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 (see the guidance provided in paragraph 8 of Appendix I).

Product category/ portfolio	IFRS 9 component *Description*	IFRS 9 component in relative numbers compared to total liability *(EUR)*	IFRS 15 component *Description*	IFRS 15 component in relative numbers compared to total liability *(EUR)*
Category 1, portfolio1				

Step 4.7 Level of aggregation

Purpose: For entity-specific reasons, insurers may prefer to organise their accounting at a different level of aggregation than required by IFRS 17. This question identifies the extent to which IFRS 17 is causing some operational accounting issues or whether these issues are related to some other factor (for example internal preferences).

22 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 at the minimum level of aggregation per IFRS 17 requirements,

or not? Consequently, for each portfolio selected, indicate whether the portfolio selected is the same, smaller or larger than required by IFRS 17?

Product category/ portfolio	Are portfolios smaller, the same, or larger than required by IFRS 17? Y/N - Explain
Category 1, portfolio1	

Purpose: this question aims to identify the difference in number of groups of contracts used under IFRS 17 compared to the current situation.

23 For each portfolio selected:

(a) Indicate the number of groups you have determined (both under IFRS 17 and current situation); and

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

Product category/ portfolio	Number of groups using IFRS 17	Number of groups using current practice	Clarification
Category 1, portfolio1			

Purpose: this question aims to measure how many onerous groups would be identified compared to the current situation, and the amount of losses in those groups. The question further identifies to which extent these losses are covered by risk sharing and the extent to which these are already identified by means of the liability adequacy test.

24 For each portfolio selected:

(a) How many of the groups are onerous;

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

(c) How much of that overall loss is due to changes in asset returns;

(d) How much of that overall loss is currently covered by risk sharing;

(e) What is the result of the IFRS 4 liability adequacy test.

Product category/ portfolio	Number of groups onerous	Amount of loss	How much % of loss is due to changes in asset returns	Of which x% is currently covered by risk sharing	Liability adequacy test *Pos/Neg*
Category 1, portfolio1					

Step 4.8. Economic mismatches[4]

Purpose: This question aims at collecting the data necessary to identify economic mismatches between the selected insurance liability portfolios and the corresponding assets.

[4] Economic mismatches are defined in Appendix I, paragraph 9.

25 For each portfolio selected (see the guidance provided in paragraph of Appendix I):

(a) Define the economic characteristics of the liabilities (duration, transactional currency, jurisdiction[5] issued, fixed or variable guarantees, options included, etc);

(b) Taking into account the fund where the assets are held (see paragraph 26), identify the economic characteristics of the covering assets (duration, transactional currency, jurisdiction[6] located, fixed or variable interest rates, options included, sensitivity to re-allocation, etc)

Product category/ portfolio	Economic characteristics of the insurance liabilities	Economic characteristics of the corresponding assets	
		Dedicated fund	General fund
Category 1, portfolio1			

Step 4.9. Accounting mismatches [7]

Purpose: This question aims at collecting the data necessary to identify the existence of accounting mismatches between the selected insurance liability portfolios and the corresponding assets.

26 For each portfolio selected (see the guidance provided in paragraphs 12 - 14 of Appendix I):

(a) Identify the asset-types that correspond to those liabilities and how these are accounted for today and under IFRS 17;

(b) Identify whether these assets are held in:

(i) A general fund;

(ii) A dedicated asset fund.

(c) Explain how the asset portfolios differ from the EIOPA reference portfolios to calculate volatility[8] adjustments;

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

(e) If you apply hedge accounting under IFRS 17 in this case study, quantify the impact of hedge accounting on the accounting mismatch.

[5] Within the same currency (e.g. EURO), differences exist between interest rates in each country.

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

[7] Accounting mismatches are defined in Appendix I, paragraph 12.

[8] 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.

Product category/ portfolio	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	Impact of IFRS 9 hedge accounting
Category 1, portfolio1						

Purpose: the aim of this question is to determine the amount of economic and accounting mismatches occurring.

27 For each portfolio selected:

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

(b) Quantify any accounting mismatch between the insurance liabilities and the corresponding assets;

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

Product category/ portfolio	Accounting mismatch under IFRS 17 (quantified)	Economic mismatch (quantified)	Strategy used to address the economic mismatch
Category 1, portfolio1			

Purpose: the aim of this question is to identify to which extent the IFRS 17 accounting policy options for insurance finance income or expense are successful in addressing the accounting mismatches.

28 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 (if any) under current accounting.

Product category/ portfolio	Accounting policy option used under IFRS 17	Accounting mismatch under current accounting (quantified)	Accounting mismatch under IFRS 17 (quantified)	Difference
Category 1, portfolio1				

Step 4.10 Hedge accounting

Purpose: This question is designed to establish whether insurers would apply hedge accounting to particular insurance liabilities under IFRS 17 and IFRS 9.

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

Intention to apply hedge accounting	Y/N
Category 1, portfolio1	

Purpose: This question aims to get an understanding of why entities would choose not to apply hedge accounting under IFRS 17 and IFRS 9.

30 If you do not intend to apply hedge accounting, please explain the reasons why.

Step 4.11 Long-term liability-driven business model

Purpose: This question is designed to get an explanation of how the long-term liability-driven business model is reflected in the financial statements under current GAAP, for each of the different portfolios selected.

31 For each of the selected portfolios, please explain your business model and how it is reflected under current GAAP or through non-GAAP measures (see the guidance provided in paragraph 15 of Appendix I).

Product category/ portfolio	Explanation of business model
Category 1, portfolio1	

Purpose: This question aims to establish what non-GAAP measures would still be considered necessary after the adoption of IFRS 17 in order to explain the financial performance and financial position of an insurer.

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

☐ 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.

Number	Non-GAAP measure	Reason for future use

Purpose: The purpose of this question is to gain an understanding to what extent IFRS 17 and IFRS 9 will reflect the business model of each portfolio of liabilities selected and the corresponding assets to those portfolios.

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

Product category/ portfolio	IFRS 17 accounting for liabilities	IFRS 9 accounting for assets
Category 1, portfolio1		

Step 4.12. CSM allocation patterns

Purpose: This question considers CSM allocation patterns and how these affect insurance revenue

34 For each portfolio selected:

(a) Explain how coverage units are to be assigned over the life of the relevant groups for new business and existing portfolios at 1 January 2016;

(b) Quantify the CSM allocation for the entire duration of the contracts;

(c) Quantify total Insurance Revenue under IFRS 17 for the entire duration of the contracts;

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

(e) Quantify the difference over time.

Product category/ portfolio	IFRS17 coverage units allocation *(Method)*	CSM allocation over time *(EUR)*	Insurance revenue IFRS 17 *(EUR)*	Current revenue/ other KPI used *(Define)*	Revenue/ other KPI over time (quantified) *(EUR)*
Category 1, portfolio1					

Step 4.13. Insurance revenue

Purpose: This question examines the expectations of preparers regarding the usefulness of the revenue numbers under IFRS 17.

35 Considering the results from question 34(c), for the selected portfolios, do you consider that IFRS 17 revenue recognition principles will deliver consistent and understandable reporting of financial performance for insurance contracts within a group or portfolio as relevant? Please explain.

Product category/ portfolio	IFRS 17 revenue recognition: comparison with current metric
Category 1, portfolio1	

Step 4.14. Insurance result

Purpose: This question considers the insurance result and how it compares to the current presentation of the technical result or any other KPI that is used to reflect their performance.

36 For each portfolio selected:

(a) Quantify total Insurance Result under IFRS 17 for the entire duration of the contracts;

(b) Explain your previous methodology for recognising the technical result or any similar KPI used under your current accounting; and

(c) Quantify the outcome under the current requirements.

Product category/ portfolio	Insurance result under IFRS 17 *(EUR)*	Current accounting revenue /other KPI recognition *(Define)*	Technical result (or similar) over time *(EUR)*
Category 1, portfolio1			

Purpose: This question examines the expectations of preparers regarding the usefulness of the insurance result under IFRS 17.

37 For each portfolio selected, do you consider that the Insurance Result under IFRS 17 will deliver consistent and understandable reporting of financial performance for insurance contracts within a group or portfolio as relevant? Please explain.

Product category/ portfolio	IFRS 17 Insurance result: comparison with current metric
Category 1, portfolio1	

Step 4.15 Insurance finance income/expenses

Purpose: This question considers how insurance finance income/expenses are presented when applying current GAAP. Where differences occur, please explain whether these are economic mismatches or accounting mismatches.

38 For each portfolio selected:

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

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

(c) Quantify how much of the difference is an economic mismatch or an accounting mismatch. Refer to paragraphs 25 - 28 for the difference between accounting and economic mismatches.

Current GAAP	*Methodology*		*Quantification*		Type of difference
Product category/ portfolio	Finance expense	Finance income	Finance expense	Finance income	
Category 1, portfolio1					

Purpose: This question considers how insurance finance income/expenses are presented when applying IFRS 17. Where differences occur, please explain whether these are economic mismatches or accounting mismatches.

39 In addition to paragraph 38 above, apply IFRS 17 and quantify how much of the difference is an economic mismatch or an accounting mismatch.

IFRS 17	*Methodology*	*Quantification*	Type of difference

Product category/ portfolio	Finance expense	Finance income	Finance expense	Finance income	
Category 1, portfolio1					

Purpose: This question examines the expectations of preparers regarding the usefulness of the financial result under IFRS 17.

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

Product category/ portfolio	IFRS 17 finance income and expense recognition: comparison to current metric
Category 1, portfolio1	

Step 4.16 Annual cohorts

Purpose: This question aims to identify the effect of applying annual cohorts on the insurance revenue.

41 For each portfolio identified:

(a) Determine your insurance revenue relying on current practices;

(b) Determine your insurance revenue under IFRS 17 using annual cohorts;

(c) Determine your insurance revenue using coverage units, but no annual cohorts; and

(d) Compare the results.

Product category/ portfolio	Insurance revenue current practice	Insurance revenue IFRS 17 with annual cohorts	Insurance revenue IFRS 17 coverage units, no cohorts	Clarification of differences
Category 1, portfolio1				

Purpose: this question aims to identify the effect of applying annual cohorts on finance income and expenses.

42 For each portfolio identified:

(a) Determine your finance income and expenses relying on current practices;

(b) Determine your finance income and expenses using IFRS 9 and IFRS 17 using annual cohorts;

(c) Determine your finance income and expenses using coverage units, but no annual cohorts; and

(d) Compare the results.

Product category/ portfolio	Finance income and expense current practice	Finance income and expenses IFRS 9 and 17 with annual cohorts	Finance income and expenses IFRS 9 and 17 coverage units, no cohorts	Clarification of differences
Category 1, portfolio1				

Step 4.17. Entity-wide effects

Purpose: this question aims to identify the entity-wide effects of IFRS 17 on balance sheet and statement of comprehensive income for the chosen portfolios.

43 Relying on all the answers to the previous questions for your portfolios selected, please provide the overall impact of applying IFRS 17 on the balance sheet and statement of comprehensive income for a period of at least 5 years.

Product category/ portfolio	Impact on balance sheet over 5 years	Impact on P&L over 5 years	Impact on OCI over 5 years
Category 1, portfolio1			

Step 4.18. Comparing IFRS 9 with IFRS 17

Purpose: the aim of this question is to measure remaining mismatches after applying IFRS 17 and IFRS 9 together and clarify their nature.

44 For each of the portfolios identified, apply IFRS 9 to your financial assets and IFRS 17 to your insurance liabilities. Identify any accounting and economic mismatches relying on the information gathered through steps 4.8 and 4.9.

Product category/ portfolio	Clarify mismatches between asset and liability side using inputs from Steps 4.8 and 4.9
Category 1, portfolio1	

Step 4.19. Direct insurance combined with reinsurance

Purpose: the aim of this question is to demonstrate the net effects between direct insurance contracts and reinsurance of these contracts.

45 Choose one of your direct insurance portfolios selected and combine it with the reinsurance ceded portfolio you have selected. In doing so, note that the reinsurance portfolio should be related to the direct insurance portfolio.

46 Relying on the information gathered in steps:

(a) 4.8. Economic mismatches;

(b) 4.9. Accounting mismatches;

(c) 4.12 CSM allocation patterns;

(d) 4.13. Insurance revenue;

(e) 4.14. Insurance result; and

(f) 4.15. Insurance finance income/expenses

please provide the following information.

Product category/ portfolio	CSM release patterns	Economic mismatches	Accounting mismatches	Insurance revenue	Insurance finance income and expenses
Direct insurance contracts					
Reinsurance ceded					
Net difference					

Step 4.20. Sensitivity analysis

Purpose: The aim of this question is to demonstrate the impact of certain financial and technical factors to assess and compare the sensitivity of net profit before tax and other components of equity where relevant to these factors under current measurement requirements.

47 Consider the quantitative outcomes for insurance revenue, insurance result and insurance finance income/expenses, for all portfolios, in paragraphs 34(b) and 38(b) above. Consider these outcomes as the reference scenario.

48 Apply the following financial and technical sensitivity analysis factors (one by one) to the underlying data of the *current GAAP* and describe the quantitative impact of the different sensitivity factors over the full duration of the liability portfolios (with a minimum of 5 years). Quantify the impact on net profit before tax (and OCI where relevant) for each of the selected portfolios:

(a) All yield-curves +50bps;

(b) All yield-curves -50bps;

(c) Overall equity investments -30%;

(d) Overall real estate investments -30%;

(e) Overall corporate spread compared to government bonds +50bps;

(f) Overall corporate spread compared to government bonds -50bps;

(g) Swaption volatilities +20%;

(h) Equity option volatilities +20%

(i) Policyholder lapses -10%;

(j) Expenses +10%;

(k) Products with longevity risk: mortality -10%;

(l) Products with death risk: mortality +10%;

(m) Single storm event with 1 in 200 probability; and

(n) Subsidence event – worst claims ratio in last 30 years.

Product category/ portfolio	Sensitivity factor applied to reference scenario	Impact on net profit before tax	Impact on OCI (ignore tax)	Explain impact
Category 1, portfolio1				

Purpose: The aim of this question is to demonstrate the impact of certain financial and technical factors to assess and compare the sensitivity of net profit before tax and other components of equity where relevant to these factors under IFRS 17 and IFRS 9.

49 Apply the sensitivity factors defined in paragraph 48 (one by one) to the underlying data applying IFRS 17 and IFRS 9 and describe the quantitative impact of the different sensitivity factors over the full duration of the liability portfolios (with a minimum of 5 years). Describe the quantitative impact on net profit before tax and OCI (where relevant) for each of the selected portfolios:

Product category/ portfolio	Sensitivity factor applied to reference scenario	Impact on net profit before tax	Impact on OCI (ignore tax)	Explain impact
Category 1, portfolio1				

Purpose: This question explores the views of preparers about appropriate/expected accounting outcomes under the sensitivity analysis performed for paragraph 48 and how this compares to the outcomes under current GAAP and IFRS 17.

50 For each of the sensitivity factors applied, explain qualitatively what, in your view, would be appropriate outcome.

(a) Explain why; and

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

(i) current GAAP; and

(ii) IFRS 17 combined with IFRS 9.

Product category/ portfolio	Ideal outcome	Why?	Compare to current GAAP outcome	Compare to IFRS 17 and IFRS 9 outcome
Category 1, portfolio1				

Step 4.21. Stress testing

Purpose: The aim of this question is to demonstrate the impact of a financial stress scenario on net profit before tax and other components of equity under current measurement requirements.

51 Consider the quantitative outcomes for insurance revenue and insurance finance income/expenses, for all portfolios, asked for in paragraphs 34(b) and 38 b) above. Consider these outcomes as the reference scenario.

52 Apply the 'Double hit' stress test scenario as set out in the EIOPA 2016 stress test[9] exercise and describe the quantitative impact for each of the portfolios on net profit before tax as well as other components of equity where relevant under current GAAP:

Product category/ portfolio	Impact on net profit before tax	Impact on OCI (ignore tax)	Explain impact

[9] Please refer to Appendix 1 for further guidance and references.

Product category/ portfolio	Impact on net profit before tax	Impact on OCI (ignore tax)	Explain impact
Category 1, portfolio1			

Purpose: The aim of this question is to demonstrate the impact of a financial stress scenario on net profit before tax and other components of equity under IFRS 17 and IFRS 9.

53 Apply the stress test defined in paragraph 52 to the underlying data applying IFRS 17 and IFRS 9 for each portfolio selected and describe the quantitative impact on profit or loss as well as other comprehensive income where relevant:

Product category/ portfolio	Impact on net profit before tax	Impact on OCI (ignore tax)	Explain impact
Category 1, portfolio1			

Purpose: This question explores the expectations of preparers about appropriate/expected accounting outcomes under the stress test described in paragraph 52 and how this compares to the outcomes under current GAAP and IFRS 17 with IFRS9.

54 For the stress test described, explain qualitatively what, in your view, is an appropriate outcome like.

(a) Explain why; and

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

(i) current GAAP; and

(ii) IFRS 17 combined with IFRS 9.

Product category/ portfolio	Ideal stress test outcome	Why?	Compare to current GAAP outcome	Compare to IFRS 17 and IFRS 9 outcome
Category 1, portfolio1				

Step 4.22 Sharing of risks

Purpose: This question aims at identifying and measuring how many contracts apply the business practice of risk sharing (mutualisation).

55 For each portfolio selected:

(a) Identify whether the portfolios share risks with other insurance liabilities (separate your answer between whether they fully or partially share risks);

(b) Overall, how much of your portfolios share risks with other insurance liabilities (separate your answer between whether they fully or partially share risks); and

(c) Quantify the effect of risk sharing in relation to the total insurance liabilities during 2016.

Product category/ portfolio	Do liabilities fully share risks with other liabilities? *Y/N*	Do liabilities partially share risks with other liabilities? *Y/N*	How much of your selected portfolios share risks with other insurance liabilities Distinguish between fully and partially risk sharing (in percentages)	Quantify the effect during 2016
Category 1, portfolio1				

Step 4.23 Discretionary cash flows

Purpose: This question identifies the extent to which portfolios benefit from discretionary cash flows.

56 For each of the portfolios identified, identify the extent to which the portfolios benefit from cash flows that are attributed on a discretionary basis by the insurance entity.

Product category/ portfolio	Does portfolio benefit from discretionary cash flows during 2016? *Y/N*	Quantify	How much of this effect relates to intergenerational transfers?
Category 1, portfolio1			

Step 4.23. Costs and benefits

Purpose: This section of the case study is designed to assist in understanding what the incremental costs will be for implementing IFRS 17.

4.23.1. Costs

57 To which extent will you rely on external advice? 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	

<u>Compliance exercise or review of systems?</u>

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

<u>Analysis and classification of insurance contracts</u>

59 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[10]

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

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

Day to day accounting and adjusting insurance amounts

61 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 4	

Developing the accounting ledger

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

%

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

(Subtotal 5.A: Cost saving)	
Subtotal 5.B: One-off costs	

Filing of reports

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

Subtotal 6	

Reliance on Solvency II

65 In applying Solvency II, did you use the Standardised Method or the Internal model to calculate your Solvency Capital Requirement?

66 Identify those differences between Solvency II and IFRS 17 that are important cost drivers. Quantify the costs of implementing those differences.

Differences SII and IFRS 17 that are main cost drivers	

[10] Please indicate whether you assess this cost as a one-off cost or an ongoing cost.

Subtotal 7	

Complexity with regards to IFRS 17

67 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	

68 Estimate the costs of applying IFRS 17 specifically with regards to non-distinct investment components, management of double set of discount rates, etc.

Subtotal 9	

Comparative information

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

Subtotal 10	

Other cost savings

70 Estimate the cost savings in implementing IFRS 17 from relying on processes and IT systems that were developed for Solvency II purposes.

(Subtotal 11)	

71 For insurance entities operating in multiple jurisdictions, do you expect local GAAP reporting to be replaced by IFRS 17?

☐ Yes ☐ No

72 If yes, estimate the cost savings expected from the application of uniform accounting policies under IFRS 17.

(Subtotal 12)	

Sharing of risks

73 When you apply sharing of risks (fully or partly) to your insurance liabilities, estimate the cost of applying the IFRS 17 requirements for sharing of risks compared to your current practice of sharing of risks.

Subtotal 13	

Other costs

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

75 Estimate the amount of these other costs.

Subtotal 14	

Overall total

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

Type of costs	Subtotals	Amount in Euro
One-off costs		
Ongoing costs		
(Cost savings)		
Overall total		

77 In your view, is the complexity of IFRS 17 justified in terms of costs of application? Which requirements of IFRS 17 will create the greatest costs? Please explain.

4.23.2. Benefits

Purpose: This section of the case study is designed highlight the expected benefits brought about for preparers of financial statements with the adoption of IFRS 17. It also provides a rating in terms of agreement for each of the expected benefits.

78 For each of the benefits highlighted below please indicate on a scale from 1 (totally disagree) to 5 (fully agree) to what extent do you agree with the following statements made will be of benefit to you.

Expected benefits for preparers of financial statements	1	2	3	4	5
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.					
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 requiring a consistent accounting policy, 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					

Expected benefits for preparers of financial statements	1	2	3	4	5
to information being available in a more 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 leads to the use of fewer units of account compared to using the individual contract as unit of account as IFRS 17 uses portfolios of contracts with similar risks and characteristics.					
Resolving accounting mismatches IFRS 17 allows entities to present 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 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 IFRS 17 provides entities with more prescriptive requirements than IFRS 4 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 IFRS 17 reflects how risk is managed by entities. This could provide an opportunity for risk management and financial reporting teams to integrate management and financial reporting, thus therefore reducing the amount of work to prepare financial and management reports.					
Sharing of risks Although IFRS 17 does not foresee an exemption from the use of annual cohorts for contracts that fully share risks, IFRS 17, paragraph BC138 notes that the requirements specify the amounts to be reported, but not the methodology to be used to arrive at those amounts.					

Purpose: This question aims to highlight some additional benefits that are expected with the adoption of IFRS 17 and provides an explanation of how entities will benefit from them compared to the current situation.

79 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.

Purpose: This question aims to identify any additional benefits over and above those listed above which are expected from the adoption of IFRS 17.

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

Step 4.24. Overall impact

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

81 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
Product categories		

Purpose: The purpose of this question is to quantify how the selected portfolios will impact regulatory capital with the adoption of IFRS 17 on both 1 January 2016 and 31 December 2020.

82 For each portfolio selected, quantify the impact on regulatory capital of applying IFRS 17.

	Impact on regulatory capital (+/- absolute amounts)	Impact on Solvency II ratio (as a roll-over)
Solvency II ratio (opening balance)		

	Impact on regulatory capital (+/- absolute amounts)	Impact on Solvency II ratio (as a roll-over)
Product categories		
Total impact/Solvency II ratio closing balance		

Purpose: The aim of this question is to understand whether IFRS 17 could affect the competitiveness of European insurers taking into account the diversity in their business models compared to their major competitors outside Europe.

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

(B) 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
Product categories		

Purpose: The objective of this question is to gain an understanding to what extent IFRS 17 is portraying the particular qualities of the insurance industry.

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

	Industry specificities considered/not considered
Product categories	

Purpose: The aim of this question is to evaluate whether the level of aggregation criteria under IFRS 17 maintains the correct trade-off of costs, complexity and usefulness of information. It seeks clarification for the answer provided.

85 For the groups identified in question 23, 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:

Purpose: The objective of this question is to understand to what extent the IT systems will have to be developed in the identification of groups of contracts that are onerous at initial recognition and the management of those contracts subsequently.

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

Purpose: The objective of the question is to gain insight to the allocation methodology of cash flows to a specific group if the fulfilment cash flows are identified at a higher aggregation level than a group.

87 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.

Purpose: The question aims to see whether IFRS 17 will change the current investment strategy that is in place for each liability.

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

☐ Yes ☐ No ☐ Do not know

Purpose: This part of the question highlights both the current asset types invested together with the expected asset investments if there is a change in the investment strategy. The question also aims to specify the amount invested in, by asset type, both before and after the change in investment strategy and asks for a qualitative description to clarify the difference.

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

	Asset-types (see paragraph 26 above)	Quantify the invested amounts	Expected asset investments	Quantify the invested amounts	Clarify the difference (qualitative)
Product categories					

Appendix I: Guidance to some of the questions

Introduction

1 Product categories used for the case study:

Life and health contracts with direct participation features (including with-profit contracts)

Life contracts:

This include term life, whole life, universal life, endowment, group business, deferred annuities, and immediate annuities.

Health contracts:

Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly. The Health products offered include critical illness and permanent health insurance products.

Some entities may include health products under Life contracts and others as part of Non-life or General Insurance. Where you select health insurance portfolios for the case study, please be clear in your description where this has been included.

Insurance contracts with direct participation features:

As defined under IFRS 17: *It is an insurance contract for which, at inception:*

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and

(c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

This may include “with-profits” or “participating” contracts depending on the contractual terms.

Life and health contracts without direct participation features

These include the same products as the previous category, but without direct participation features as described in IFRS 17.

Non-life contracts:

Also known as general insurance or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.

Investment contracts with discretionary participation features:

As defined under IFRS 17: *It is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:*

(a) that are expected to be a significant portion of the total contractual benefits;

(b) the timing or amount of which are contractually at the discretion of the issuer; and

(c) that are contractually based on:

(i) the returns on a specified pool of contracts or a specified type of contract;

(ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

(iii) the profit or loss of the entity or fund that issues the contract.

These are the contracts that may be included in the scope of IFRS 17 as the entity also issues insurance contracts per IFRS 17 paragraph 3(c). Investment contracts without DPFs fall under the scope of IFRS 9 and do not form part of the case study.

Unit-linked contracts (insurance):

Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges.

Similar to investment contracts without DPFs, investment unit-linked contracts do not form part of the case study.

Reinsurance ceded:

Contracts entered into by the entity with a reinsurer allowing the entity to hold reinsurance contracts in order to reduce its risk exposure to an insurance policy by passing that risk onto a reinsurer.

Reinsurance assumed:

Reinsurance contracts issued by the entity in which it assumes insurance risk by issuing reinsurance contracts to policyholders in its capacity of a reinsurer.

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2 **Question in paragraph 4**: When quantifying the measurement to be used, please use the IFRS17 calculated liability as at 1 January 2016. Total insurance liabilities refer to the IFRS 17 liability of the selected portfolios and include investment contracts with DPFs.

3 **Question in paragraph 9**: The information gathered in this question is of a general nature allowing a better understanding of how pricing of insurance contracts is being determined. The answers are to be seen *as a function of the goal*: to identify, whether or not IFRS 17 would affect the pricing of insurance contracts. To achieve that goal an understanding is required of the main drivers of a price. Is the price of insurance contracts mainly driven by:

(a) Individual contract characteristics (for example, the rebuilding value of a house in a fire insurance, or the driving history of a person in car insurance, or the age, health conditions and life-style of a person in a health insurance contract);

(b) Scaling effects: the size of the pool of contracts that share the same risk;

(c) The expected return of underlying assets (for example, are insurers more relaxed in pricing when underlying asset returns are expected to be positive); or

(d) Any other component that may have a role.

Where possible, please indicate the importance of each of the pricing components, for example, whether scaling effects are more important than the individual contract characteristics or vice versa.

4 **Question in paragraph 10:** This question is a follow-up from question 9 and aims at identifying the relationship, if any, between the use of annual cohorts and the grouping requirements of IFRS 17 with the pricing methodology of insurance contracts. It is important to identify if the use of annual cohorts and the grouping requirements only affect the scaling effect of the price or also other components.

5 **Question in paragraph 11:** This question is a follow-up from question 9 and focuses on how the components of price / pricing methodology will change, if any, with the introduction of IFRS 17.

6 **Question in paragraph 13**: When explaining the impact on transition, it is asked to provide insight in how profitability over time is recognised for the chosen portfolios. The profitability pattern will determine how much profit has already been absorbed in retained earnings or other components of equity at the moment of transition, and how much profit is still expected.

7 **Question in paragraph 19(d)**: Insurance result is Insurance revenue under IFRS 17 less Insurance claims and other expenses.

In case you want to apply the Variable Fee Approach to reinsurance contracts, please select this product category.

8 **Question in paragraph 21**: When calculating the relative components of IFRS 9 and IFRS 15 components, compare the value of each component to that of the total liability.

9 **Question in paragraph 25**: Economic mismatches arise if the values of, or cash flows from, assets and liabilities respond differently to changes in economic conditions (IFRS 4, paragraph BC172(b)).

10 Sensitivity to reallocation is an estimate of the likelihood that an asset will be reallocated during the entire duration of the liability. The likelihood is to be estimated on past practice. Although reallocation is far less likely when working with dedicated funds, situations may occur that assets are replaced outside a dedicated fund. Also, the surplus assets may be used to bring in additional support when the assets in a dedicated fund show a shortfall.

11 In defining the economic characteristics of the corresponding assets, the transition date is taken as a starting point (1 January 2016). Also, the degree of reallocation can be based on historical data during 2016. However, the respondent may foresee shifts in current asset allocation over the next years (for example, in the current low rate environment additional return may be sought in non-listed infrastructure loans or mortgage portfolios). In that case it is asked that these are identified.

12 **Question in paragraph 26**: Accounting mismatches arise 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 (IFRS 4, paragraph BC172(a)).

13 To the extent that Solvency II requirements rely upon reference asset portfolios in dealing with volatility this needs to be considered in a comparison between Solvency II and IFRS 17.

14 Because the reallocation of assets may affect the existence of mismatches, quantification of reallocation is needed. Examples of mismatches affected by reallocation include:

(a) Example 1: assume a portfolio of insurance liabilities at fulfilment value with corresponding bonds at amortised cost. Both the liabilities and the corresponding bonds are held and issued in the same country A and show an accounting mismatch. Assume further that, based upon ALM decisions, some of the corresponding bonds are reallocated and replaced with bonds issued in country B (also measured at amortised cost). This action partly replaces the accounting mismatch with an economic mismatch.

(b) Example 2: assume a portfolio where assets and liabilities are fully aligned (that is, no mismatches). Assume further that, based upon ALM decisions, one of the corresponding bonds with a remaining duration of 5 years is reallocated and replaced with a bond with a remaining duration of 7 years. Such a reallocation creates an economic mismatch.

15 **Question in paragraph 31**: The purpose of the question is to determine whether current GAAP support the business model. Indicative examples of descriptions are:

"For life contracts: our contracts written mostly have a long duration with claims occurring during the entire period but more often during the last deciles of the duration. Our contracts have an insurance coverage component and a savings component. Premiums are collected and invested in assets held in a general fund/dedicated fund with the aim of supporting future claims. Shortfalls in claims paying ability that may occur are covered through mutualisation."

"For non-life contracts: our contracts written mostly have a duration of one year. Claims mainly occur during the contract period, but for some risks claims may occur after the contract period had ended (tail risk). Our contracts have an insurance coverage component but not a savings component. Premiums are collected and invested in assets held in a general fund. In absence of a savings component, all shortfalls in claims paying ability that may occur are covered through mutualisation and financial reinsurance."

"For reinsurance ceded: Reinsurance is used by us in different ways. For our fire insurance we use reinsurance only for insurance contracts with a claim value above 10.000.000 CU. For insurance contracts with a lower claim value we use reinsurance as a finance component. "

16 **Question in paragraph 34**: Quantification refers to the annual amounts recognised over the relevant period (i.e. life of the contract). The request to quantify the outcome should allow the derivation of trend information of insurance revenue over time (by presenting both graphical information and the figures that support the graphical representation).

Gross written premiums may not be the comparable measure to Insurance Revenue under IFRS 17, so please use a comparable metric.

17 **Question in paragraph 38**: The request to quantify the outcome should allow the derivation of trend information of insurance finance income and expense over time (by presenting both graphical information and the figures that support the graphical representation).

18 **Question in paragraph 39**: In answering this question, keep in mind that the financial margin is included in CSM when applying the Variable Fee Approach.

19 **Question in paragraph 41**: This question tests the use of annual cohorts, its impact on insurance revenue over time and whether the annual cohort requirement can be replaced by using coverage units.

20 **Question in paragraph 42**: This question tests the use of annual cohorts, its impact on finance income and expense over time and whether the annual cohort requirement can be replaced by using coverage units.

21 **Question in paragraph 48**: As requested by the European Commission, the case study includes a sensitivity analysis to a variety of financial and technical factors. Answers may be prepared on a similar basis to sensitivity analysis prepared for IFRS or MCEV reporting. The impact on net profit before tax and components of equity may exclude tax. Where it includes the impact of mitigating activities such as hedging or reinsurance, this should be explained.

22 **Question in paragraph 50**: In order to evaluate whether the accounting impacts resulting from the sensitivity analysis is appropriate, this question asks what preparers would regard as appropriate outcomes in the circumstance.

23 **Question in paragraph 52**: Some members of the EFRAG IAWG and TEG suggested that a 2008-type stress test scenario should be included in the case study. The request for advice from the European Commission asked EFRAG to consider a stress scenario. To ensure consistent application, such a stress test scenario would require extensive parameters to be used by participants in their various markets.

To generate a consistent and coherent stress scenario from scratch is not feasible as this is usually generated by economists over a considerable period. In the absence of a summary of the critical 2008 crisis parameters to be used for this purpose, the 'Double hit' scenario in the EIOPA stress testing exercise for 2016 will be used. The EFRAG Secretariat notes that the EIOPA scenario was not developed with testing of IFRS 17 in mind.

For further details please refer to https://eiopa.europa.eu/pages/financial-stability-and-crisis-prevention/stress-test-2016.aspx

For the avoidance of doubt, the 'Low for long' scenario as described in the EIOPA stress test should be ignored for purposes of the case study as it tests a different kind of stress to the 2008 type stress proposed.

If your entity did not form part of the EIOPA stress test in 2016, please discuss options with the EFRAG Secretariat.

24 **Question in paragraph 54**: In order to evaluate whether the accounting impact resulting from the stress test is suitable, this question asks what preparers would regard as appropriate outcome in the circumstance. Explaining whether and how current GAAP ends in a better result could provide deeper insights.

25 **Question in paragraph 55**: The aim of the question is to determine to what extent the selected portfolios are sharing risk (whether fully or partially) with other insurance liabilities.

Example – Some of the risks related to a certain group of life contracts are covered by another group of life contracts. For example, the minimum guarantee for group A is 2% while the minimum guarantee for group B is 5%. If the returned earned by the assets for group B are insufficient to cover the promised guarantee, the returned earned by group A can be utilised to that extent.

26 **Question in paragraph 56**: To quantify, please calculate the present value of the discretionary cash flows as a percentage to the overall liability measurement of the portfolio.

27 **Question in paragraph 71**: 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 entities with the group. Therefore, it is expected that multinational entities who prepared financial statements under differing GAAPs may have a cost saving from eliminating any reconciliation and/or pro-forma consolidation entries to align with the group's overall accounting policy.