IFRS 17 *Insurance Contracts*
Costs and benefits of applying IFRS 17

Objective

1 The objective is for EFRAG TEG to provide comments regarding the costs and benefits of applying IFRS 17 *Insurance Contracts*.

Introduction

2 The EFRAG Secretariat has considered the extent to which implementing IFRS 17 in the EU will result in one-off and ongoing costs for preparers and users, and whether these costs are likely to be exceeded by the benefits to be derived from the endorsement of IFRS 17. This assessment considers the costs for both year one and subsequent years.

3 The EFRAG Secretariat has obtained information relating to the costs and benefits from sources such as EFRAG's extensive case study, EFRAG's simplified case study and EFRAG's User Outreach. The EFRAG Secretariat has also considered recent external publications from Deloitte and SAS.

Summary of information collected

4 Appendix 1 contains detailed information on the estimated one-off and ongoing costs for preparers. The costs for each insurer are significantly impacted by existing systems and practices. One-off costs reported by respondents to the extensive case study averaged €136 million per insurer (corresponding to 0.35% of Gross Written Premiums). One-off costs reported by respondents to the EFRAG's simplified case study averaged €24 million per insurer (corresponding to 0.30% of Gross Written Premiums).

5 Appendix 2 contains detailed information on the costs for users. Most users indicated that they expect costs to be minor/not significant as these relate only to the time needed to understand the numbers, adjustments to current user models and bridging different regulations. Only a minority of users expected that they would incur significant costs.

6 Appendix 3 contains detailed information on the benefits for preparers and users. While preparers in the extensive case study had mixed views on the benefits arising from IFRS 17, preparers in the simplified case study were more positive on the benefits arising from IFRS 17. Based on the EFRAG User Outreach, most specialist and generalist users expect an improvement in comparability between insurance entities and transparency in reporting of their results. Users are also calling for early advice from insurers of the expected impact of IFRS 17. The majority of users expected that the benefits would exceed the costs.

7 It is noteworthy that the Deloitte *Global IFRS Insurance Survey 2018* which surveyed a range of industry participants including preparers and users found that 93% of participants expected that the benefits of IFRS 17 would outweigh the costs.

8 This paper is an early stage in the assessment of costs and benefits and therefore does not conclude on whether the benefits of applying IFRS 17 exceed the costs.

Question for EFRAG TEG

9 Does EFRAG TEG have any comments regarding this paper?

Appendix 1: Costs for preparers

1 EFRAG has carried out an initial assessment of the cost implications for preparers resulting from IFRS 17. EFRAG expects that the extent of the one-off costs for preparers will depend on existing practices and the current IT systems and processes.

One-off costs for preparers

2 Based on the two EFRAG case studies, the total one-off costs reported by respondents were €2.29 billion, i.e., €1.5 billion for EFRAG's extensive case study (11 respondents, average of €136 million per insurer corresponding to 0.35% of Gross Written Premiums) and €0.79 billion for EFRAG's simplified case study (32 respondents, average of €24 million per insurer corresponding to 0.30% of Gross Written Premiums).

3 One-off implementation costs for individual respondents from EFRAG's extensive case study ranged from €6 to €317 million while the range from EFRAG's simplified case study was €30 thousand to €180 million.

4 This section on one-off costs focusses on the following:

(a) EFRAG's extensive case study one-off costs;

(b) EFRAG's simplified case study one-off costs;

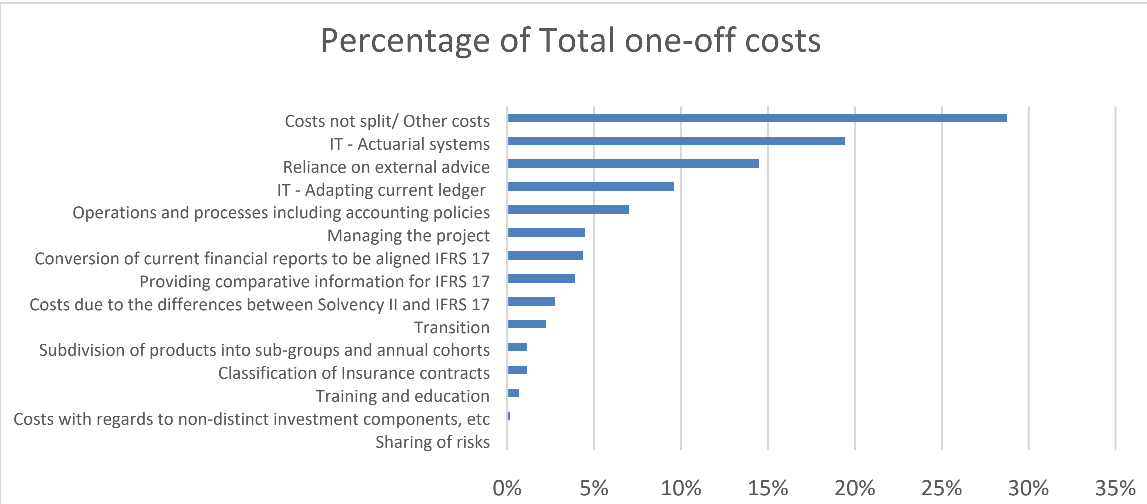
(c) Smaller insurers versus larger insurers;

(d) Effective date of IFRS 17; and

(e) IFRS 17 versus Solvency II.

EFRAG's extensive case study one-off costs

5 Respondents from the extensive case study provided details of the one-off costs which can be broken down into the following costs:



6 The "costs not split/ \other costs" category includes costs relating to (i) audit, compliance, controls, (ii) internal costs, (iii) managing the whole project, (iv) training and education, (v) work on lobbying activities and relationships with auditors, etc. Note that since some respondents did not provide a split of some cost amounts, this category may include costs which have been separated above by other respondents.

7 Below is an indicator of the total one-off costs compared to various criteria obtained from the financial statements of respondents that participated in EFRAG's extensive case study:

One-off costs as a percentage of:	Average	Smallest %	Largest %
Total assets	**0.03%**	0.00%	0.06%
Equity	**0.57%**	0.03%	13.43%
Gross written premiums	**0.35%**	0.07%	1.10%
Expenses *	**0.26%**	0.13%	1.10%

* Computed from the financial statements as profit or loss after tax less revenue less other credits

8 As can be noted in the graph following paragraph 5, the key drivers of these costs relate to the adaption of existing or development of new actuarial and accounting systems as well as the reliance on external advice.

System changes

9 Various systems would need to be linked in order to obtain the data necessary to comply with the IFRS 17 requirements including actuarial and accounting systems. The one-off costs for preparers would depend on the status of an entity's existing systems and controls and also the extent to which various systems are currently linked together.

10 Regarding the reliance on actuarial calculations, some respondents either expect to rely on both in-house and external actuarial development or have not yet made an evaluation. While a minority of respondents expect to rely on either in-house or external solutions.

11 The following requirements in IFRS 17 are considered to be significant drivers of cost based on input from participants in EFRAG's extensive case study.

Level of aggregation

12 The level of aggregation including the annual cohort requirement and the onerous contract test was reported by most respondents to be one of the greatest cost drivers. This level of aggregation is primarily in order to determine the contractual service margin that will be recognised to profit or loss each year.

13 Currently, the information used to assess the effect of changes in assumptions on different contracts is at a higher level than under IFRS 17 as it takes into account cross-subsidisation effects (i.e. some more profitable contracts can compensate for other contracts that are less profitable) within a portfolio of contracts of similar nature.

14 Under IFRS 17, system changes including IT processing capacity and increased data storage would need to be made to capture the data necessary to comply with the IFRS 17 level of aggregation requirements.

15 Similar issues arise with insurance contracts that are onerous under IFRS 17. Currently, under IFRS 4, entities ensure that the insurance liability is adequate by applying the liability adequacy test which is usually at portfolio level or higher.

16 Some of the respondents quantified the one-off costs specifically associated with applying the subdivision of products into subgroups and annual cohorts:

	€ millions	% costs over total IFRS 17 costs for three respondents that quantified
One-off costs	19.3	between 4% and 23%

17 The respondent with 23% of one-off costs indicated that this was due to the contractual service margin IT module by product (that will require a "pseudo P&L" at product level). The EFRAG Secretariat notes that this respondent currently measures their insurance contracts on an individual contract basis and intends to continue to do so after applying IFRS 17.

Transition

18 The IASB has sought to reduce the cost of transition to IFRS 17 for preparers by providing the following three transition approaches:

(a) Fair value approach;

(b) Modified retrospective approach; and

(c) Full retrospective approach

19 Feedback received from preparers in EFRAG's extensive case study indicated the following transition approaches used as a percentage of total portfolios selected:

(a) 35.0% used fair value approach;

(b) 32.5% used the modified retrospective approach;

(c) 22.5% used the full retrospective approach; and

(d) 0.01% noted that due to the duration of portfolios being less than one year no transition method is needed.

20 Although the full retrospective approach provides more comparable information between different generations of similar contracts, it can be costly especially for long-duration contracts where the full retrospective approach would require significant time, effort, and resources to develop the necessary historical data. As noted in EFRAG's extensive case study the full retrospective approach was often not applied due to the lack of historical data or redundant systems.

21 Several respondents to EFRAG's extensive case study raised concerns about the operationality of the modified retrospective approach. The concerns relate to the granularity of the required data, and the associated costs.

Financial statement presentation

22 The presentation requirements having most impact on costs because of the need to change existing systems are reported in the extensive case study as separate presentation of:

(a) insurance contracts in an asset position and in a liability position. One of the respondents from the extensive case study quantified the cost of compliance of this requirement as being between €21 and 27 million, representing between 9 and 12% of this respondent's one-off costs;

(b) receivables and payables. One respondent from the extensive case study estimated the cost to be in a three-digit million Euro range in order to link payment information with cash management systems or to change the mechanics of policy administration systems; and

(c) insurance funds withheld.

Other issues

23 Other requirements of IFRS 17 that were mentioned as creating one-off implementation costs (but where the impact was not quantified are:

(a) *Reinsurance contracts held.* Under current accounting, reinsurance contracts held are commonly accounted for in the same way as the underlying direct insurance contracts. However, under IFRS 17, the accounting for reinsurance contracts held is separately recognised and measured rather than being based on the underlying insurance contracts.

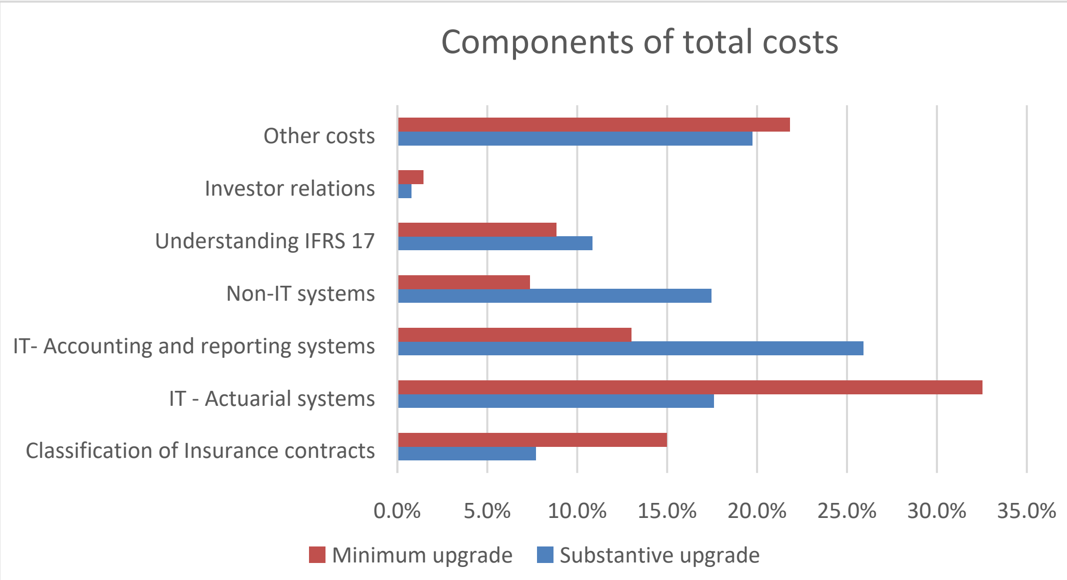
(b) *Non-distinct investment components*. IFRS 17 requires the non-distinct investment component[1] to be excluded from insurance contract revenue and incurred claims which is currently not required under IFRS 4.

(c) *Business combinations.* IFRS 17 has amended IFRS 3 *Business Combinations*, paragraph 17 to remove an exception that currently exists where insurance contracts are recognised based on the factors at the inception date rather than acquisition date. Under IFRS 17, entities will apply IFRS 3 without this exception.

EFRAG's simplified case study one-off costs

24 Feedback received from 32 respondents with regards to total one-off costs for the implementation of IFRS 17 under the EFRAG simplified case study were estimated at €790 million.

25 The following graph provides an overview of the total cost expected by these respondents. The graph reflects how the cost are distributed over several components and differentiates between respondents that will execute a minimum upgrade and those that will execute a substantive upgrade.



26 Those respondents that expected to make a minimum upgrade to their systems made the following remarks:

(a) A review is currently in place to ensure that the current system has the necessary capability to support the requirements of IFRS 17; and

(b) The outcome will be defined after the gap analysis, but currently a minimum extent of changes is planned.

27 In contrast, those respondents that expected to make a substantive upgrade to their systems made the following remarks:

(a) The requirements of IFRS 17 will require substantive changes in the IT systems (both actuarial and financial/reporting systems);

[1] As per IFRS 17, investment components are amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

(b) Although much of the features and functionalities of Solvency II can be utilised, the areas where IFRS 17 and Solvency II deviate will require additional costs; and

(c) A more substantive upgrade is planned to achieve improved efficiency including a financial statement closing process to match the IFRS 17 requirements in terms of granularity and data consistency with a timing in line to produce a monthly balance sheet and income statement.

28 Given the significant differences in size in companies that participated in EFRAG's simplified case study, the costs reported were stratified based on the total assets and gross written premiums of respondents. This results in the following information:

Total assets	**Less than €1 bn**	**€1 - 20bn**	**€20 - €50bn**	**€50 - €100bn**	**More than €100bn**
Average costs as a percentage of total assets	0.22%	0.19%	0.12%	0.05%	0.05%

Gross written premiums	**Less than €1 bn**	**€1 - 20bn**	**€20 - €50bn**	**€50 - €100bn**
Average costs as a percentage of gross written premiums	1.62%	0.88%	0.36%	0.43%

Smaller insurers versus larger insurers

29 Taking smaller insurers as those who participated in EFRAG's simplified case study and larger insurers as those that participated in EFRAG's extensive case study, the three main cost drivers for one-off costs between smaller and larger insurers from both case studies performed by EFRAG were similar as follows:

Smaller insurers	**Larger insurers**
IT - Actuarial systems	IT - Actuarial systems
IT- Accounting and reporting systems	Reliance on external advice
Non-IT systems	IT – Adapting current ledger

30 Both smaller insurers and larger insurers had the category 'Other costs' as one of their main costs drivers. For larger insurers this category was explained in paragraph 6 above. From EFRAG's simplified case study 'Other costs' for smaller insurers relate to costs for:

(a) the alignment of accounts receivable and accounts payable to future cash flows based on the requirements in IFRS 17;

(b) source systems, data quality and data lineage; and

(c) transition and dry runs.

31 In EFRAG's simplified case study, cost estimates were obtained for one group entity that participated in the extensive case study and a subsidiary that participated in the simplified case study. The estimates provided were as follows:

€ cost estimate	**Group**	**Subsidiary**
One-off costs	1,950,600	40,000
Ongoing costs	40,000	1,500

Effective date of IFRS 17

32 The effective date for IFRS 17 is 1 January 2021. Based on the responses from EFRAG's extensive case study, most of the respondents suggested to have a delay of the effective date of IFRS 17 ranging between one and three years. Only one respondent indicated that first-time application of IFRS 17 in 2021 was realistic.

33 Based on Deloitte's *Global IFRS Insurance Survey 2018*[2], most insurers have started their efforts to prepare for IFRS 17 compliance, with 45% very confident that they will be ready by the effective date and 45% somewhat confident. In comparison, just 1% are not confident.

34 Based on SAS' report on *Transformation in process: Perspectives and approaches to IFRS 17*[3], 22% believe they will be compliant by the end of 2018 while 46% by the end of 2019. By contrast almost a third (31%) will start their interpretation and compliance efforts in 2020 – just a year before the 2021 deadline.

35 From EFRAG's simplified case study, 20% of the respondents indicated that implementation of IFRS 17 was in progress.

36 The EFRAG Secretariat expects that delays to the effective date of IFRS 17 may add to the one-off costs because of the need to review and possibly change completed parts of their implementation projects.

IFRS 17 versus Solvency II

37 IFRS 17 and Solvency II are both based on current measurement of the (uncertain) future cash flows of (re-)insurance contracts. Also for both, the measurement is based on a probability-weighted estimate of the future cash flows, time value of money and an allowance for risk.

38 Despite the similarities in some areas, respondents to the extensive case study generally anticipated few if any cost savings in the implementation of IFRS 17 as a result of the investment made in Solvency II. Many respondents from the extensive case study indicated that key cost drivers arising from the differences between Solvency II and IFRS 17 include:

(a) Granularity - Current actuarial tools have to be upgraded to support IFRS 17 increased granularity compared to Solvency II;

(b) Calculation of contractual service margin and risk adjustment under IFRS 17;

(c) Differences between cash flows, e.g. expenses, interest rates; and

(d) Reporting - IFRS 17 requires the definition of an accounting model aimed at preparing a full balance sheet and P&L while Solvency II focusses on the statement of financial position and capital.

39 These key differences are summarised in the table below.

Differences:	**IFRS 17**	**Solvency II**
Granularity/grouping of contracts	Entities are required to divide portfolios of insurance contracts into a minimum of, where applicable, separate groups of (i) contracts that are onerous at inception, if any; (ii) contracts that have no significant possibility of becoming onerous subsequently, if any; and (iii) remaining contracts, if any.	Segmentation into homogeneous risk groups, and as a minimum by lines of business, when calculating technical provisions

[2] The survey can be accessed at: https://www2.deloitte.com/global/en/pages/financial-services/articles/global-ifrs-insurance-survey.html

[3] The SAS research was informed by a UK-based survey. The report can be accessed at: https://www.risklibrary.net/regulation/compliance/transformation-progress-perspectives-and-approaches-ifrs-17-29356

Differences:	IFRS 17	Solvency II
	A group of contracts cannot include contracts issued more than one year apart.	
Contractual Service Margin	The CSM is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future. The CSM at initial recognition results in no income or expenses at that date, except for onerous contracts. The CSM should also be recognised for insurance contracts acquired in a business combination or portfolio transfer.	Since Solvency II does not recognise CSM, this IFRS 17 requirement is not applicable.
Risk Margin	IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment, but it should have specified characteristics. An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment.	Under Solvency II specific guidance are provided to calculate the risk margin taking into account the different lines of business.
Liability discount rates	Should reflect the time value of money and the characteristics of the cash flows, be consistent with observable current market prices and exclude factors which do not affect the future cash flows. May be computed 'top-down' or 'bottom-up'. Accounting policy choice for changes in the discount rates to be recognised either in (i) profit or loss or (ii) profit or loss and other comprehensive income	The relevant risk-free interest rate term structure should be used. (Re-)insurers may irrevocably apply a matching adjustment to the relevant risk-free interest rate term structure to calculate the best estimate, subject to prior approval by the supervisory authorities
Expenses	In determining the future cash flows an allocation of overhead expenses should be included, if these are within the contract boundary.	Expenses shall take into account overhead expenses incurred in servicing (re-)insurance obligations.
Balance Sheet	Separate presentation for (re)insurance contracts issued that are assets and those that are liabilities.	Annual publication of a Solvency and Financial Condition Report (SFCR). A mandatory appendix to the SFRC includes a detailed balance sheet, with prescribed lines, providing the amounts for a large number of assets and liabilities.

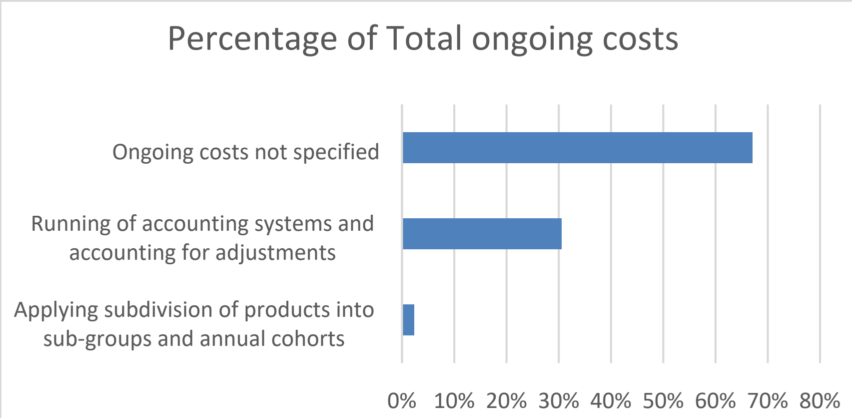
Ongoing costs for preparers

40 Based on the two EFRAG case studies, the total ongoing costs reported by respondents was to €142 million per annum, i.e., €100 million per annum for EFRAG's extensive case study (six participants) and €42 million per annum for sixteen respondents that did provide ongoing cost estimates in EFRAG's simplified case study.

41 Ongoing costs for individual respondents ranged from €6 €50 million per annum for EFRAG's extensive case study and €1,500 to €20.5 million per annum for EFRAG's simplified case study.

EFRAG's extensive case study ongoing costs

42 Based on the extensive case study, the ongoing costs can be broken down into the types of costs as follows. These ongoing costs are for half of the respondents, the other half indicated that this has not been evaluated yet. Note that these ongoing costs are only for one year.



43 A few respondents from the extensive case study quantified the ongoing costs specifically associated with applying the subdivision of products into subgroups and annual cohorts:

	€ millions	**% costs over total IFRS 17 costs for two respondents that quantified**
Ongoing costs	17.4	10% and 75%

EFRAG's simplified case study ongoing costs

44 In EFRAG's simplified case study, ongoing costs were mostly qualitatively described, and few respondents (33%) were able to estimate the ongoing costs quantitatively. Respondents noted that key drivers of ongoing costs would include:

(a) The overall measurement principle of IFRS 17 (which includes discounting, updating of assumptions and the calculation and tracking of the risk adjustment) will require new calculations;

(b) Level of aggregation: data storage from the IFRS 17 grouping and annual cohorts requirements;

(c) The presentation and disclosure requirements; and

(d) The complexity of the standard.

Other external sources relating to costs for preparers

Deloitte Global IFRS Insurance Survey 2018

45 Evidence was obtained from the Deloitte *Global IFRS Insurance Survey 2018*. This study refers to both European and non-European insurers including Asia, Canada and US and is based on feedback from 340 senior insurance, actuarial and IT executives.

46 This study reported that 35% of insurers expect to spend more than 50 million euros to be in compliance with the requirements of IFRS 17. Further, insurers indicated that spending their budgets will be relatively even between four categories:

(a) buying and building technology solutions;

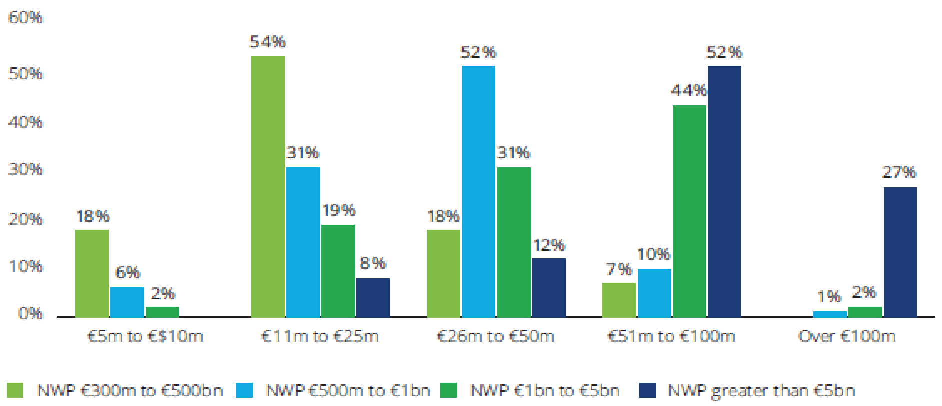
(b) engaging external business consulting firms;

(c) expanding internal teams;

(d) and engaging contractors for the development and implementation of technology solutions.

47 In the table below, NWP refers to net written premiums.

Figure 12. Please indicate your total budget for IFRS 17 compliance. Respondents by insurer size. (Excludes the percentage of those who gave a *I don't know* response.)



Source: Economist Intelligence Unit

48 The study reported differences in sources of costs between different types of insurers:

(a) Reinsurers and composite insurers are devoting a higher percentage of their budgets towards technology solutions compared with other types of insurers: 38% of reinsurers and 36% of composites are spending at least 41% of their budgets on technology investments alone;

(b) Reinsurers and composite insurers are also spending a greater proportion of their budgets on contractors for the development and implementation of their technology solutions compared with others: 37% of reinsurers and 33% of composite insurers are spending more than 41% of their budgets on this expenditure;

(c) Non-life companies (excluding health insurance) and life insurance companies are spending more money internally. Respectively, 39% and 38% are spending more than 41% of their budget on building out their internal teams; and

(d) The study has shown that staffing numbers for implementation are correlated to the insurer's size.

SAS Perspectives and approaches to IFRS 17

49 In August 2018, SAS published a report on *Perspectives and approaches to IFRS 17* based on a UK-based survey of 100 executives working in the insurance industry.

50 Based on this report, 97% of survey respondents said that they expected the standard to increase the cost and complexity of operating in insurance. Entities

would need to introduce a new system of KPIs and make changes in management information reports to monitor performance under the revised profitability metrics. Forward looking strategic planning will also need to incorporate potential volatility and any ramifications within the insurance industry.

51 90% of the respondents believe compliance costs will be greater than those demanded by Solvency II.

52 Data management systems will be the prime target for review, with 84% of respondents planning to either make additional investment (25%), upgrade (34%), or replace them (25%). Finance, accounting and actuarial systems will also see significant innovation, as 83% and 81% respectively prepare for significant investment.

53 In addition, 63% acknowledge that they will have to either supplement their existing workforce with contractors or interim workers, or provide training. 37% of respondents believe their organisation has the skills and resources needed to prepare their systems and procedures for compliance.

Appendix 2: Costs for users

One-off costs for users

54 Based on the EFRAG User Outreach, most of the specialist users expected their costs to be minor/not significant. Costs expected to be incurred by these users are the following:

(a) Time needed for the learning curve and to understand the numbers;

(b) Adjustments to the users' models as companies change accounting or the way they make their disclosure and other IT costs; and

(c) Bridging different regulations, Solvency II, embedded accounting.

55 A minority of the specialist users expected that material/significant costs will be incurred by them due to training, remodelling and making reconciliations.

56 Only a minority of generalist users commented on expected costs and they expected their costs to be reasonable and to create value, e.g., costs for them to understand IFRS 17.

Ongoing costs for users

57 Based on the EFRAG User Outreach, less than half of the specialist users commented on what part of their models would be updated on an ongoing basis due to IFRS 17. Many of those who commented indicated that they did not expect a fundamental change in their models nor did they have issues with updating their models as they considered that this was a normal part of their business.

58 A few specialist users considered that adjustments would continue to be made to the IFRS 17 numbers and/or non-GAAP measures would continue to be used.

59 Therefore, based on the above, EFRAG expects that the ongoing costs for users may not be significant.

Impact of transition requirements

60 Both specialist and generalist users considered that the range of transition approaches in IFRS 17 would create difficulties with comparability. This will impose costs on users both on transition and on an ongoing bases until the groups to which the modified retrospective approach or the fair value approach were applied are no longer material. Until that time, users will need to consider that new business and groups where the full retrospective approach were applied are comparable, while groups to which the modified retrospective approach or the fair value approach were applied are not comparable. Some users noted that disclosures could help users in understanding and making adjustments to the information in the financial statements, but not all were convinced that the disclosures required by IFRS 17 were sufficient.

Appendix 3: Benefits for preparers and users

61 EFRAG has carried out an assessment of the benefits for users and preparers resulting from IFRS 17. The evaluation of benefits is, by its nature, mostly qualitative because it is very difficult to quantify the benefits in monetary terms.

Benefits for preparers

EFRAG's extensive case study

62 Most of the respondents from EFRAG's extensive case study saw the implementation of IFRS 17 not only as a compliance exercise but also as an opportunity to review their internal systems, e.g. reviewing and redefining processes and internal systems.

63 In addition, respondents provided their ratings on the following IFRS 17 benefits (1 being totally disagree and 5 being fully agree):

	Weighted average
Reasonable approximation under the Premium Allocation Approach	3.4
Availability of accounting policy choices for finance income and expenses	3.1
Specific measurement guidance leading to more uniform measurement basis than IFRS 4	2.9
More comparable financial reporting information	2.6
Current accounting – i.e. using updated assumptions	2.5
Uniform Chart of Accounts	2.4
Reduced cost of capital	2.3
Resolving accounting mismatches relating to accounting policy choices for finance income and expenses	2.2
Reflecting the economics of the business thereby reducing current non-GAAP measures	2.2
Enhanced integration between risk management and financial reporting	2.1
Sharing of risks	2.0
Level of aggregation	1.6

64 Based on the above table, respondents considered the following as the largest benefits of IFRS 17 for preparers:

(a) *The reasonable approximation under the Premium Allocation Approach* was considered to be similar to current accounting and therefore would be expected to reduce complexity and implementation costs. Respondents also saw drawbacks such as the disclosures relating to the premium allocation approach or the identification of onerous contracts.

(b) *The availability of options for presenting finance income and expenses* enabled insurers to reflect the different business models and help eliminate some accounting mismatches.

(c) The majority of respondents noted that *comparability* would improve (also due to specific measurement guidance of IFRS 17 versus IFRS 4). Given the different policies, measurement models, accounting options and required judgements, comparability would not be entirely achieved among peers.

(d) *Quality of financial information.* About half of the respondents thought that the application of IFRS 17 could improve the quality of financial information provided to users through disclosures compared to IFRS 4. For example, the IFRS 17 disclosure requirements to explain the main areas of judgment may assist the users to have a deeper understanding of the financial and economic position and the roll forward of the insurance liabilities may be useful information.

65 In contrast, half or more of the respondents thought that IFRS 17 compared to IFRS 4:

(a) *would not lead to an increased understanding of the insurance sector by capital providers*. This is because, for example, IFRS 17 is not seen as fully depicting the economics of the entities' business model, non-GAAP measures are expected to continue, for general insurance business IFRS 17 will make financial statements more difficult to understand as this business is well understood currently and the existence of options in the standard;

(b) *would not increase the attractiveness of the insurance sector to investors*. This is because, for example, of the additional complexity introduced by IFRS 17 including transition rules which will last many years, IFRS 17 does not appropriately reflect the fundamental economics of the business; existence of accounting mismatches such as reinsurance;

(c) *would not have a possible positive effect on the cost of capital of insurers*. This is because, for example, the improvement in comparability is not much as many are expecting, the complexity of IFRS 17 including transition requirements, increased volatility in profit or loss or other comprehensive income and due to a number of key issues such as reinsurance, onerous contracts; and

(d) *would not lead to an increased understanding of the insurance sector by other stakeholders*. This is because, for example, IFRS 17 does not always properly depict the economics of the business model nor does it reduce the complexity of the insurance business and IFRS 17 is not rooted in emerging cash flow.

EFRAG's simplified case study benefits

66 Respondents from EFRAG's simplified case study were generally more positive about the benefits to them of IFRS 17. The following table provides their ratings on the following IFRS 17 benefits (1 being totally disagree and 5 being fully agree):

	Weighted average
Reasonable approximation under the Premium Allocation Approach	3.7
Resolving accounting mismatches	3.1
Availability of options	3.0
More comparable financial reporting information	3.0
Specific measurement guidance	3.0
Sharing of risks	2.7
Reflecting the economics of the business	2.6
Current accounting	2.6
Enhanced integration between risk management and financial reporting	2.4
Level of aggregation	2.2
Uniform Chart of Accounts	2.1

67 Based on the table above, respondents identified the following characteristics of IFRS 17 as the most beneficial to them:

(a) *The reasonable approximation under the PAA* – Respondents noted that the PAA helps in reducing the complexity of the implementation and would result in lower implementation costs as they do not have to build and track a CSM.

(b) *Resolving of accounting mismatches* – Here respondents agreed that IFRS 17, along with IFRS 9, will reduce accounting mismatches.

(c) *The availability of options* – Here respondents highlighted that the availability of options makes it possible to choose the options that best reflects the business of the insurance company. They also noted that the impact of interest rate changes will be reflected transparently in the financial statements.

(d) *More comparable financial reporting information* – Respondents acknowledged that the model used under IFRS 17 will be the same for all entities and therefore the believe comparability will increase. Although concerns were raised about the different assumptions used, respondents felt that this will be mitigated by the disclosure requirements of the standard.

(e) *Specific measurement guidance* –Respondents agreed that IFRS 17 provides more prescriptive requirements than IFRS 4 which will increase comparability.

Cost of capital

68 Based on the EFRAG User Outreach, a majority of the specialist and generalist users expected the cost of capital to decrease or not to change while a minority expected an increase. Some specialist users considered that an initial rise in the cost of capital of the industry as a whole was expected due to the need for all market participants to adapt to the new approach. Subsequently, a decrease in the cost of capital was expected.

69 Also, it was noted that the decrease in cost of capital would not be for all insurance companies. With the benefit of more detailed information about the insurance business, the cost of capital for some insurance companies might rise. Some indicated that the investability of the insurance sector was expected to increase while others thought that even though IFRS 17 will improve accounting, IFRS 17 may not necessarily make it more accessible for generalists.

70 In the [draft] economic study commissioned by EFRAG it was noted that there are differing views on the potential impact of IFRS 17 on the cost of capital for EU insurance undertakings. Most stakeholders interviewed (i.e. the majority of supervisory authorities and some insurance undertakings) agreed on the fact that in the long run, the new accounting standards will bring increased transparency on the financial report practises of European insurance companies, improving their ability to raise capital on the market. Furthermore, it was stressed this change could make the insurance industry more attractive to a generalist investor, which would reduce the cost of equity in the long run.

71 In contrast, the majority of life insurance undertakings interviewed, stressed that IFRS 17 implementation will negatively affect the life insurance industry and strongly disagree that there are any potential positive outcomes for the industry itself. Those stakeholders commented the increased complexity of accounting rules associated with IFRS 17 will not bring the intended transparency, but on the contrary, it will make the sector even less open to non-highly specialised investors.

72 Therefore, it is possible that IFRS 17 could, at least temporarily, increase the cost of capital for European insurers while investors familiarise themselves with the new standard.

Smaller insurers versus larger insurers

73 The three highest ranking benefits for smaller insurers compared to larger insurers from both case studies performed by EFRAG were as follows. Note that smaller insurers were considered as those who conducted EFRAG's simplified case study while larger insurers were those that conducted EFRAG's extensive case study.

Smaller insurers	Larger insurers
Reasonable approximation under the Premium Allocation Approach	Reasonable approximation under the premium allocation approach
Resolving accounting mismatches	Availability of accounting policy choices for finance income and expenses
Availability of options	Specific measurement guidance leading to more uniform measurement basis than IFRS 4

IFRS 17 versus Solvency II

74 Based on EFRAG's extensive case study, a minority of respondents indicated cost savings from relying on processes and IT systems developed for Solvency II amounting to €120 million (i.e. 23% of the minority of respondents' one-off costs).

Other external sources relating to benefits for preparers

Deloitte Global IFRS Insurance Survey 2018

75 Deloitte's *Global IFRS Insurance Survey 2018* found that:

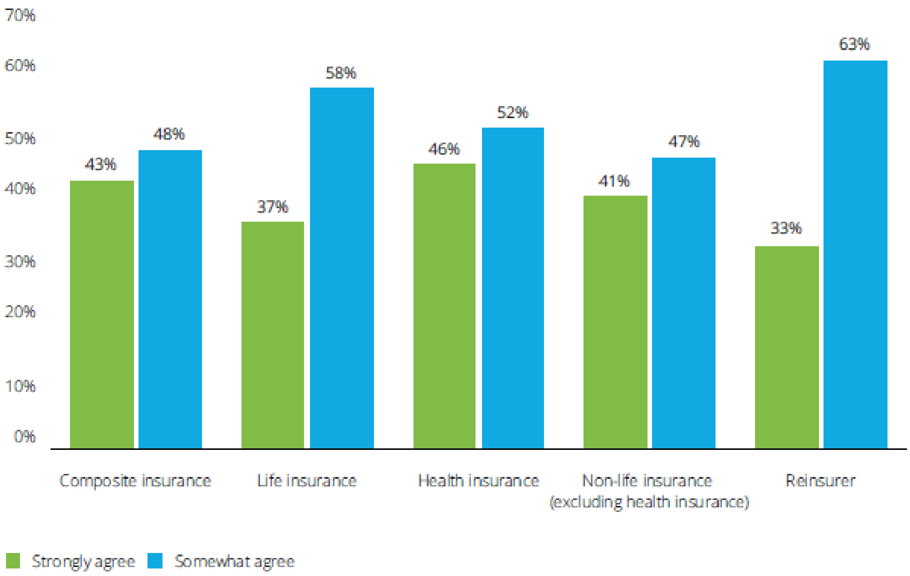
(a) 40% of the respondents agreed that benefits of adopting IFRS 17 would outweigh the costs;

(b) 53% somewhat agreed that the benefits would outweigh the costs;

(c) 5% somewhat disagreed that the benefits would outweigh the costs; and

(d) 1% strongly disagreed that the benefits would outweigh the costs.

Figure 26. For my business, the benefits of adopting the IFRS 17 Standard outweigh the expected costs. (Excludes the percentages of respondents who disagree or do not know.)



Source: Economist Intelligence Unit

76 Overall, the top three expected improvements cited by respondents are: financial statements that better reflect the results of business performance; easier access to capital markets for mergers and acquisition and fundraising activities; and improved information to support product design.

SAS Perspectives and approaches to IFRS 17

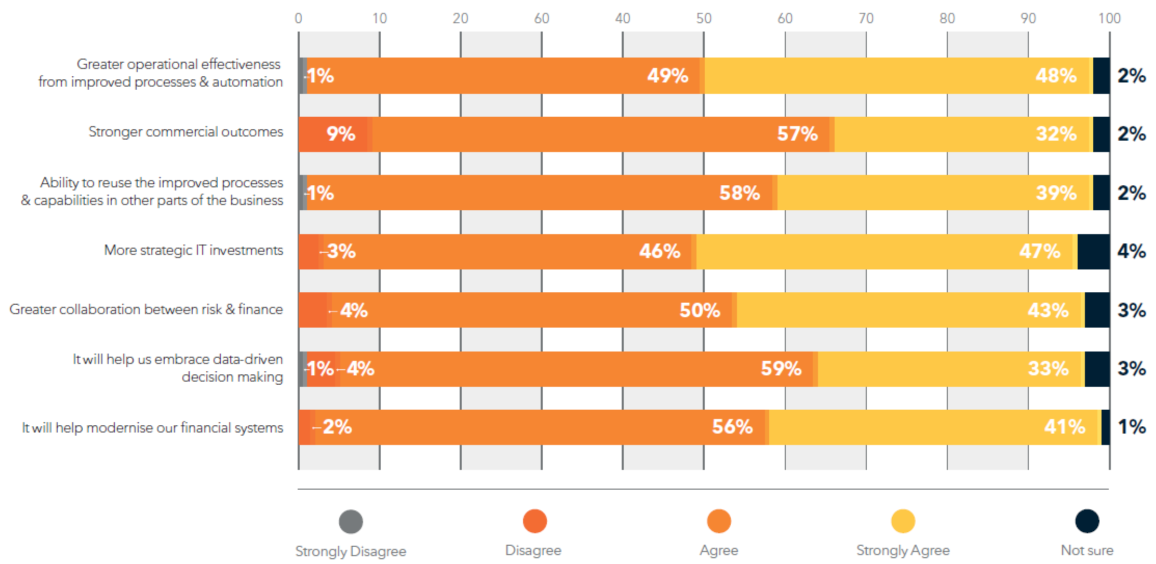
77 The SAS report found that 84% of respondents believe IFRS 17 will deliver additional benefits for their organisation beyond compliance, whereas only 12% view the exercise as purely a compliance exercise. Further:

(a) 87% of respondents believe IFRS 17 will either be crucial for the survival of the insurance industry or will at least increase robustness for the future;

(b) 92% of the respondents consider that IFRS 17 will help the sector by improving transparency; and

(c) The perceived benefits of IFRS 17 are associated with greater operational efficiency, as 97% of respondents are expecting improved processes and automation, as well as the ability to re-use improved capabilities in other parts of the business. The same overwhelming majority (97%) also said the required changes would help them modernise their financial systems.

What impact do you expect IFRS 17 to have on your organisation?



Benefits for users

78 Based on the EFRAG User Outreach, most specialist and generalist users expect an improvement in comparability between insurance entities. Users appreciated that there would be only one framework applicable across countries and that they would benefit from the enhanced disclosures. A few users that expected an improvement in comparability also thought IFRS 17 did not go far enough in building a uniform reporting framework.

79 A minority of users were not convinced that IFRS 17 would improve comparability. Those that raised comparability concerns provided examples of the source of their concerns, especially lack of comparability such as the need to apply judgement, the standard being principle-based for some aspects and the availability of options.

80 Other benefits of IFRS 17 seen by specialist users included the following:

(a) Profit earned based on services provided and the split between underwriting and investing result was seen as useful information;

(b) Some users stressed the importance of the disclosures, e.g., disclosing the assumptions used in measuring insurance liabilities; and

(c) a potential for significant improvements in corporate governance which may lead to benefit for regulators through better understanding of pricing policies, onerous contracts and risks.

81 Additional benefits of IFRS 17 seen by generalist users included the following:

(a) IFRS 17 will move closer to the Solvency II approach which was found useful for credit investors;

(b) IFRS 17 may reduce the need to rely on non-GAAP measures;

(c) The identification of onerous contracts provided useful information; and

(d) The split between underwriting and investing results was seen as very useful.

Comparison of costs and benefits of IFRS 17

82 Based on the EFRAG User Outreach, a majority of specialist and generalist users anticipated greater expected benefits compared to expected costs.