IFRS 17 *Insurance Contracts*
Preliminary results of simplified case study

Objective

1 The simplified case study was designed to provide input into EFRAG's development of a draft endorsement advice on IFRS 17 *Insurance Contracts*. This paper summarises the responses received to the simplified case study on IFRS 17.

Introduction

2 This paper summarises the responses received to the simplified case study on IFRS 17. Of the 51 responses received, 2 did not appear to have any relation to Europe and were excluded from the analysis.

3 The analysis of the responses is still ongoing and subject to further clarification through interviews with participants. The paper will be updated in due course.

4 Results in this analysis are provided in aggregate to respect the confidential nature of the information provided by participants.

Structure of the paper

5 This analysis contains:

(a) Summary of respondents' views; and

(b) Detailed answers to the questions in the case study in the Appendix.

6 The below table shows the type of insurers that participated in the simplified case study:

Type of insurer	# of respondents
Insurer	34
Reinsurer	3
Financial conglomerate	8
Mutual entity	3
Pension company	1
Total	49

Summary of respondents' views

Part A - General information

Stage of advancement in implementing IFRS 17

7 About 20% of respondents were already in the implementation phase. More than half of the respondents were only starting their impact analysis or had completed their impact analysis and were preparing for implementation.

Key differences of current accounting with IFRS 17

8 Respondents noted the following differences as the most important:

(a) The use of CSM and its allocation to profit or loss;

(b) The use of discounting;

(c) The level of aggregation;

(d) The use of an explicit risk margin; and

(e) The treatment of acquisition costs.

Product trends

9 Respondents were divided whether IFRS 17 would affect product types being offered with slightly more respondents expecting this would not be the case. Respondents that expected a change noted, amongst others, there could be changes to the product design including changes to contractual conditions. Also some types of contracts may be reduced or no longer be sold.

10 Those respondents who stated that their product types are expected to change explained it was due to IFRS 17 because (amongst others):

(a) The level of aggregation and identification of onerous contracts;

(b) Product features would have to consider the CSM and risk adjustment figures; and

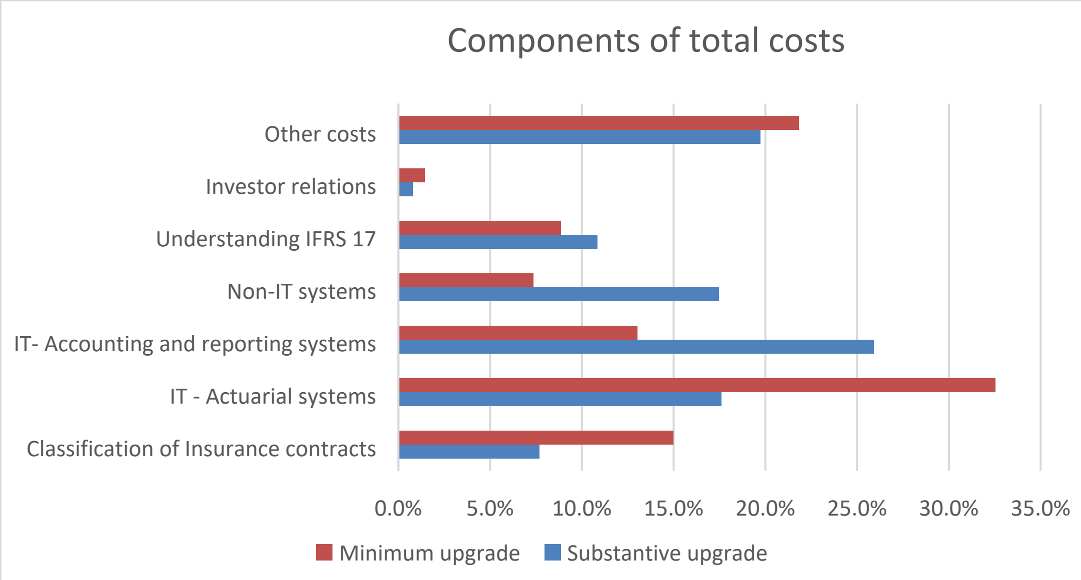
(c) The significant operational impact and costs.

Pricing

11 Nineteen respondents did not expect that IFRS 17 will change their current pricing methodology. Ten respondents expected a change in their current pricing methodology and eighteen did not know.

Estimates of cost

12 The following graph provides an overview of the total cost expected by 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.



Implementation costs

13 Given the significant differences in size in companies that participated in the small 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**	**More than 1bn but less than 20bn**	**More than 20bn but less than 50bn**	**More than 50bn but less than 100bn**	**More than 100bn**
Standard Deviation	0.22%	0.17%	0.06%	0.04%	0.01%
Average	0.22%	0.19%	0.12%	0.05%	0.05%

Gross written premiums	**Less than 1 bn**	**More than 1bn but less than 10bn**	**More than 10bn but less than 20bn**	**More than 20bn**
Standard Deviation	2.46%	0.71%	0.29%	0.28%
Average	1.62%	0.88%	0.36%	0.43%

Ongoing costs

14 Respondents noted that the ongoing costs would relate to (amongst others):

(a) The overall measurement principle including treatment of CSM;

(b) The level of aggregation;

(c) The presentation and disclosure requirements; and

(d) The complexity of the standard.

15 More than half of the respondents noted that the implementation of Solvency II would reduce the costs of applying IFRS 17 to some extent.

Benefits

16 Respondents identified the following characteristics of IFRS 17 as the most beneficial to them:

(a) The reasonable approximation under the premium allocation approach (PAA);

(b) Resolving of accounting mismatches; and

(c) The availability of options.

IFRS 17 to improve quality of financial information?

17 A majority of respondents noted that compared to IFRS 4, the application of IFRS 17 could improve (fully or in a limited way) the quality of financial information reported. The consistent measurement approach, disclosures about the contractual service margin (CSM), risk adjustment and identification of loss-making lines of business were considered to contribute to this.

IFRS 17 to lead to an increased understanding of the insurance sector?

18 Less than half of the respondents thought that the application of IFRS 17 could lead to an increased understanding of the insurance sector by capital providers and investors. One of the reasons mentioned here was the treatment of reinsurance contracts.

19 About half of the respondents thought that the application of IFRS 17 would not lead to an increased understanding of the insurance sector by other stakeholders. The complexity of the Standard was considered to hamper the understanding.

IFRS 17 to have a positive effect on cost of capital?

20 About half of the respondents thought that the application of IFRS 17 would not have a possible positive effect on the cost of capital of insurers. Reasons provided were diverse. They included that cost of capital under Solvency II would not change, the expected higher volatility and the deferral of distributable profits under IFRS 17 compared to today. Others thought it was hard to predict.

Key performance indicators

21 Respondents identified 91 internal and 80 external key performance indicators, most of which were only used by one or two insurers. Most common indicators were combined ratio, gross written premiums, SCR/Solvency ratio, return on equity and claims ratio.

Asset and liability management

22 Of the 41 that provided information, about half of the respondents held assets that back specific liabilities, the other half generally held assets in a general fund.

23 Respondents were divided whether IFRS 17 would affect their current investment strategy. It was noted that economically risks are unchanged by the introduction of IFRS 17, but the accounting would make these risks more visible than today.

24 For those that expected an impact, that impact was caused by the interaction of IFRS 9 and IFRS 17 and the aim to align accounting with Solvency II requirements (reducing volatility in accounting and enjoying a reduction in capital requirements).

25 Some respondents also expected an increase in hedging and/or hedge accounting. Also a higher investment in FVOCI assets was expected but a lower investment in equities.

Part B - Quantitative information

26 16 respondents contributed to Part B of the case study. Of those 16 respondents, only 7 respondents contributed to most or all of the questions. The remaining 9 respondents only provided general comments.

Transition

27 Of those respondents that answered the question, 4 thought that retained earnings would be impacted negatively, 4 thought there would be no or an insignificant change in retained earnings. Sources of impact were (amongst others) recognition

of a CSM and risk adjustment, discounting and the recognition of loss components. No respondent thought that retained earnings would increase on transition.

Scope of VFA

28 Three respondents noted that the variable fee approach (VFA) should be extended to include ceded business and annuity contracts.

Separation of components

29 Respondents noted that unbundling was generally not used today and they expected no change under IFRS 17.

Level of aggregation

30 Portfolios selected by respondents were either larger or smaller than required by IFRS 17. With one exception, respondents did not identify a large increase in the number of groups of insurance contracts to be reported.

31 Of the portfolios reported upon, the identification of onerous groups increases the loss to be reported, net of risk sharing. This is especially the case when a loss component is already being reported under current GAAP. These losses are mostly due to asset returns that were lower than the promised return and the use of a discount rate.

Overall comment

32 Respondents mainly provided a list of suggestions of where IFRS 17 should be changed. These suggestions included level of aggregation, reinsurance, transition and CSM release. Also, it was noted that the IFRS 17 impact is not to be assessed in isolation but rather the interrelationship with IFRS 9 was to be considered. Finally, it was stressed that global application of IFRS 17 was to be maintained.

Question to EFRAG TEG

33 Does EFRAG TEG have comments on the preliminary summary of inputs received?

Appendix 1 - Detailed analysis of responses to questions in the Simplified case study on IFRS 17 Insurance Contracts

Part A : General information

Insurance activities

Question 2

How far advanced are you in implementing IFRS 17?

Summary of respondents' comments

1 The table below summarises the respondents' comments on the extent to which IFRS 17 is being implemented:

	# of respondents
Impact analysis in progress: (Range of start dates: March 2017 – May 2018 Range of expected completion dates: March 2018 – during 2020)	21
Impact analysis completed and preparing for implementation*	15
Implementation in progress: (Range of start dates: November 2017 – April 2018 Range of expected completion dates: End of 2019 – by 2021)	10
Both impact analysis and implementation in progress in parallel:	2
No information provided:	1
Total	**49**

* For example, e.g., preparation of methodology/accounting policy.

2 The table below further splits the above table in paragraph 1 by country:

	Impact analysis in progress	Impact analysis completed and preparing for implementation	Implementation in progress	Both impact analysis and implementation in progress in parallel	No information	Total
Belgium	1		1	1		3
France	1	1	1			3
Germany			3			3
Italy	3	1	1			5
Netherlands	2	2	1	1		6
Rest of Eastern Europe *	2	1				3

Rest of Western Europe **	5		1		1	7
Slovenia	5	2	2			9
UK	2	8				10
Total	**21**	**14**	**10**	**2**	**1**	**49**

* Czech Republic and Lithuania

** Spain, Austria, Denmark, Sweden and Greece

Question 3

> Provide a short description of the main jurisdictions in which you operate and the main product types offered in each jurisdiction (showing also the percentage of total business contributed by each product type and the basis for identifying how the percentage of business is derived). For each product type, identify whether you expect to apply the General Model, the Variable Fee Approach or the Premium Allocation Approach if IFRS 17 is endorsed for use in the EU/EEA:

Summary of respondents' comments

3 The table below shows the product types categorised into broad product types, the average percentage of business for the respondents and the IFRS 17 approaches expected to be used.

4 In addition, most of the respondents reported their percentage of business based on premiums, e.g., gross written premiums, earned premiums.

Product type	**Average % of business**	**IFRS 17 approaches**
Life and health (including accident)	50%	• PAA** for health, • For the other products: GM** or VFA** or still analysing
Non-life	34%	PAA or GM or still analysing
Reinsurance assumed	7%	GM or still analysing
Reinsurance ceded*	0%	PAA
Other	2%	PAA or GM or still analysing
Out of scope of IFRS 17	4%	
No information	3%	N/A
Total	100%	

* This is 0.4%

** PAA = Premium Allocation Approach, GM = General Model, VFA = Variable Fee approach

5 Some respondents were able to provide more detailed information on the percentage of business to which IFRS 17 approach is expected to be used for life and for non-life business:

6 From the 50% of business that is life and health (including accident) as per the above table:

(a) 0.5% of the business is expected to apply the premium allocation approach;

(b) 15% of the business is expected to apply the general model;

(c) 21% of the business is expected to apply the variable fee approach; and

(d) 14% of the business is still being analysed or there was no split made.

7 From the 34% of business that is non-life as per the above table:

(a) 8% of the business is expected to apply the premium allocation approach;

(b) 1% of the business is expected to apply the general model; and

(c) 25% of the business is still being analysed or there was no split made.

Question 4

For each product type, please provide a brief explanation of your current accounting methodology and the key differences from IFRS 17.

Summary of respondents' comments

8 Views from respondents have been grouped into the following types of products:

(a) Life insurance;

(b) Non-life insurance;

(c) Health insurance,

(d) Reinsurance assumed; and

(e) Reinsurance ceded.

<u>Current accounting</u>

<u>LIFE INSURANCE</u>

9 Below is a summary of current accounting for life insurance *from at least one* of the respondents categorised by country. The table identifies how current practices relate to key components of IFRS 17.

	Discounting of liability done?	Whether the liability is based on current assumptions?	Recognition of onerous contracts?	Premiums recognised as insurance revenue when written or due?	Deferred acquisition costs treatment
Belgium	X	X	• Prudent provisioning for the liability • New contracts with regular premiums tend to create losses in the first couple of years due to low account balances but high initial costs. • IFRS 4 Liability Adequacy Test • Flashing light provision[1]	✓	No info

[1] The Flashing Light Provision requires the gradual build-up of additional technical provisions over 10 years.

France	No info	No info	• A minimum guaranteed benefit reserve is created for unit linked savings contracts. • A policyholders' surplus reserve is also included if there is a temporary difference in valuations between the consolidated financial statements and the parent company financial statements. • The provision for market losses on investments is recorded to cover the fall in asset yields. • The equalization provision covers fluctuations in claims experience arising from life, disability and incapacity insurance. • The provision for interest rate risk covers non-regulatory interest rate commitments.	No info	No info
Italy	X	X	• Prudent provisioning for the liability • IFRS 4 Liability Adequacy Test • Shadow accounting reserve[2] • For options and guarantees, additional reserves made using prudent valuation rules issued by Regulator.	✓	Expensed
Netherlands	✓	Mixed	• Prudent provisioning for the liability • Liabilities include margins for adverse deviations. • The adequacy of the insurance liabilities, net of DAC and VOBA[3] (the net insurance liabilities), is evaluated at each reporting period. If the established insurance liability is lower than the liability based on current best estimate actuarial assumptions the shortfall is recognised immediately in the profit and loss account.	No info	No info
Rest of Eastern Europe *	✓	X	• IFRS 4 Liability Adequacy Test and results of this recognised in profit or loss.	No info	Amortised
Rest of Western Europe **	Mixed	✓	• Prudent provisioning for the liability	✓	No info
Slovenia	No info	No info	• Prudent provisioning for the liability • IFRS 4 Liability Adequacy Test	✓	No info
UK	✓	✓	• Prudent provisioning • Negative reserves are set to zero	✓	No info

<u>NON-LIFE INSURANCE</u>

10 Below is a summary of current accounting for non-life insurance *from at least one* of the respondents categorised by country:

	Discounting of liability done?	Current liability assumptions?	Recognition of onerous contracts?	Premiums recognised as insurance revenue?	Deferred acquisition costs treatment

[2] Calculated to reduce the accounting mismatch existing with valuation method of financial assets included in investment contracts with discretionary participation features.

[3] DAC: deferred acquisition costs; VOBA: value of business acquired

Belgium	X	No info	• Unexpired Risk Reserve policy • Flashing light provision[4] • Equalization and Catastrophe provision	✓ Recognised evenly over coverage period – pro-rata.	
France	✓ For annuities	No info	• The provisions for unexpired risks cover claims expenses and other costs not covered by the unearned premium provision. • The escalating risk provision may be required for insurance business transacted in respect of sickness and incapacity. • The equalization provision is designed to cover exceptional costs relating to transactions insuring risks due to natural or nuclear disasters, third-party liability claims resulting from pollution, space-related risks, air transport risks and risks relating to terrorist attacks.	No info	No info
Germany	No info	No info	• No info	✓ Recognised evenly over coverage period or following instalment paid is realised over the remaining coverage period.	No info
Italy	X	X	• For onerous contract (calculated at least on each regulatory line of business) an additional liability is recognised • Additional non-risk based prudential reserves are required for specific risk (earthquake, hail, etc…).	✓ Recognised evenly over coverage period – pro-rata.	Expensed or amortised (accounting policy choice only for multi annual premium products with upfront payment of acquisition costs.
Netherlands	Mixed	No info	• For insurance policies covering a risk increasing during the term of the policy at premium rates, this risk is taken into account when determining the liability.	✓ Recognised evenly over coverage period.	No info

Rest of Eastern Europe *	Mixed	No info	• Prudent provisioning	✓ Recognised evenly over coverage period.	Amortised

[4] The Flashing Light Provision requires the gradual build-up of additional technical provisions over 10 years.

Rest of Western Europe **	X For claims provisions	✓ For claims provisions	• No info	✓ Recognised evenly over coverage period / earned in full when the underlying shipment takes place.	No info
Slovenia	No info	No info	• Prudent provisioning	✓	No info
UK	X For claims provisions	No info	• Conservative approach to assessing liabilities, based on management's best estimate including a prudence margin that exceeds the internal actuarial best estimate.	✓	Amortised

Reinsurance assumed

11 Below is a summary of current accounting for reinsurance assumed *from at least one* of the respondents categorised by country:

	Discounting of liability done?	Current liability assumptions?	Recognition of onerous contracts?	Premiums recognised as insurance revenue?	Deferred acquisition costs treatment
France	✓		• Assumptions allow for an adequate safety margin for the risks of change, error and random fluctuation.	✓	Amortised
Germany	Mixed	Mixed	• Amount of technical provisions must at all times be sufficient to cover any liabilities arising out of insurance contracts.	No info	Amortised
UK	No info	No info	No info	✓ Premiums recognised in line with the pattern of the incidence of risk.	No info

Reinsurance ceded

12 Below is a summary of current accounting for reinsurance ceded *from at least one* of the respondents categorised by country:

	Discounting of liability done?	Current liability assumptions?	Recognition of onerous contracts?	Premiums recognised as insurance revenue?	Deferred acquisition costs treatment
Netherlands	No info	X	• No info	No info	No info

<u>Key differences between current accounting and IFRS 17</u>

13 The following requirements of IFRS 17 are key differences from current accounting that were raised by at least 3 respondents:

(a) The CSM and CSM allocation requirement. (26 respondents)

(b) Current discounting for technical provisions under IFRS 17 and liability for incurred claims. (24 respondents)

(c) Level of aggregation - under IFRS 4, aggregation is generally at a higher level and no losses specifically for onerous contracts. General provisions recognised only, for example, via the liability adequacy test. (21 respondents)

(d) Explicit risk margin. (19 respondents)

(e) Recognition of acquisition costs in estimates of cash flows at inception and excluding some deferred acquisition costs which are not allowed under IFRS 17. (13 respondents)

(f) Insurance revenue can no longer include any investment component. (13 respondents)

(g) Specific presentation of the performance statement. (5 respondents)

(h) The fulfilment cash flows under IFRS 17 will cover the different options and guarantees provided in the contract and will be more explicit. (5 respondents)

(i) Current assumptions are required for determining the provisions under IFRS 17. (4 respondents)

(j) Focus on key drivers of insurance contract profitability under IFRS 17 rather than cash orientated view. (3 respondents)

(k) Reinsurance:

(i) for reinsurance ceded, IFRS 17 requires gross liabilities and reinsurance to be measured and presented separately. (3 respondents)

(ii) for reinsurance assumed, the reinsurance contracts are expected to be assessed individually according to the aggregation rules under IFRS 17. (1 respondent).

Product trends

Question 5

Do you expect that the application of IFRS 17 will affect the product types that you offer (either by reducing product types or by adding new products)? Please provide a short description of any expected changes and an explanation of how/why IFRS 17 will lead to the changes described

Summary of respondents' comments

14 The below table summarises the respondents' comments on the expectation of IFRS 17 changing product types offered:

Is there an expectation that IFRS 17 will affect the product types offered?	**# of respondents**
Yes *	19
No **	22
Cannot predict yet	7
No information provided	1
Total	**49**

* includes modification of product design including contractual terms and pricing

** no effect or no significant impact on product offerings.

15 Expected changes to product types offered mentioned were the following:

(a) Some changes/revisions to the design of the products offered including changes to contractual conditions; (7 respondents)

(b) Some types of contracts may be reduced or may no longer be sold, e.g., products with discretionary participation features for savings and annuities, insurance cover to less favourable risk profiles; (6 respondents)

(c) Expected influence of IFRS 17 on the introduction of new products; (2 respondents)

(d) May affect reinsurance products, e.g., may cause needs for new reinsurance solutions (such as non-traditional structured reinsurance products) and some of the current product types may become less attractive and therefore will either disappear from the markets or may be discontinued to be offered to cedants; (2 respondents)

(e) Could affect the product mix; (2 respondents)

(f) Change in pricing over the long-term of some products; (1 respondent)

(g) One respondent noted that IFRS 17:

(i) may have an impact on product trends which would determine the product offerings going forward, e.g., shift away from guaranteed life products, a focus on individual responsibility and the increased importance of digital channels;

(ii) cause some changes in product trends within countries where the current regulatory and reporting environment allows for "management expectation" (e.g. non-EU/Asia), where product changes and/or pricing impact can get accelerated therefore these countries may no longer write certain guarantees; and (1 respondent)

(h) One respondent provided detailed comments as follows:

(i) May drive change in the company reinsurance strategy;

(ii) For Savings products:

- a decrease in "long term" offer namely guaranteed capital savings products. They could also divest in long term investments such as infrastructure, and listed and unlisted equities. As a consequence, any long term guarantee offer may be revisited and/or reduced;
- removal of products that will no longer be competitive;
- insurers applying IFRS 17 may be diverted from pension annuity contracts to the benefits of asset managers;

(iii) For mortgage and P&C products, IFRS 17 is likely to influence the pricing of those contracts which will no longer benefit from the mutualisation effect between risks (age, social class etc.).

16 Those respondents who stated that their product types are expected to change explained it was due to IFRS 17 because:

(a) of the level of aggregation, e.g., the treatment of onerous contracts including acquisition costs leading to onerous contracts due to short contract boundaries; pricing may be occurring at a lower level and due to the annual cohort requirement; (9 respondents)

(b) product features will take into account the contractual service margin and risk adjustment figures; (3 respondents)

(c) of significant operational impact and costs; (3 respondents)

(d) of the specific treatment of reinsurance held compared to assumed business and the mismatch between reinsurance contracts held and insurance contracts issued; (12 respondents)

(e) IFRS17 does not include the mutualisation concept embedded into many country-specific insurance products and also due to the impact on profit or loss of asset fair value changes (no matter how mitigated by the mechanic of the VFA approach) and this would lead entities to experience volatility of their results and therefore they may discontinue some products; (1 respondent)

(f) IFRS 17 does not presume the existence of hybrid products (including risk part, unit-linked investment part and non-linked investment part); (1 respondent)

(g) of the changed measurement rules; (1 respondent)

(h) volatility arising in profit or loss and the application of IFRS 17 creating a competition distortion with players not required to comply with IFRS 17; and (1 respondent)

(i) of competitiveness as those not applying IFRS 17 will benefit from more flexibility in their pricing policy and their product offer. (1 respondent)

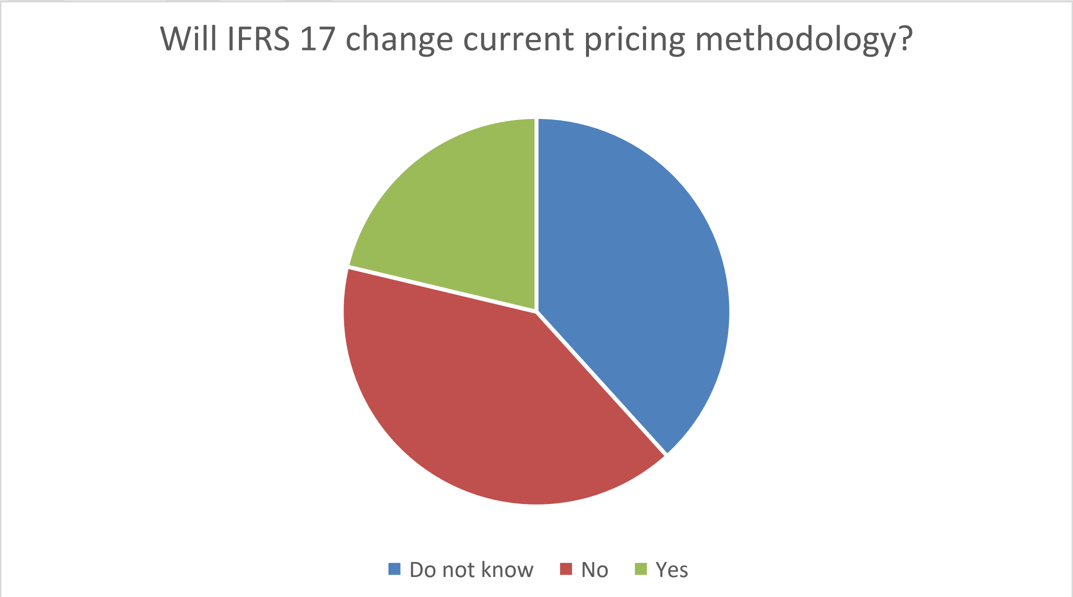
Pricing

Question 6

Do you expect that IFRS 17 will change your current pricing methodology? If you answered YES, please explain what changes you expect and why this will result from the application of IFRS 17.

Summary of respondents' comments

17 The following diagram summarises respondents' responses to the question:



18 Nineteen respondents did not expect that IFRS 17 will change their current pricing methodology. However ten respondents expected a change in their current pricing

methodology and eighteen did not know. Those that expect a change noted some of the following remarks:

(a) IFRS 17 is expected to influence the decision on introduction of new products, with the focus on profitability and type of product, guarantees and options, duration of policies, premium payment dynamics and combination of products/covers sold etc. The number of products is not expected to reduce. When introducing new products expected CSM and risk adjustment figures will have very important roles.

(b) With the introduction of IFRS 17, avoiding losses may be an additional factor in the pricing of insurance contracts. The granular identification of onerous contracts does not account properly for the way insurers actually manage their business, therefore the implementation of IFRS 17 is likely to lead to an increase in the price of the current guarantees and/or reduce the level of guarantees offered.

(c) In considering other impacts on pricing, one respondent specifically mentioned that assessing profitability under IFRS 17 would be accompanied by the assessment of the Solvency II Capital Requirement. Another respondent relied on embedded value to calculate minimum profitable insurance premiums.

(d) One respondent did not expect IFRS17 to fundamentally change the current pricing methodology. However, IFRS 17 could impact pricing indirectly, depending on changes in the indicators used to monitor performance.

(e) For reinsurance – One respondent indicated that the asymmetry that IFRS 17 creates may have a direct consequence of a switch from proportional reinsurance to other forms of ceded reinsurance. Another respondent indicated that profit is currently assessed by considering the effect of reinsurance and the cost of capital.

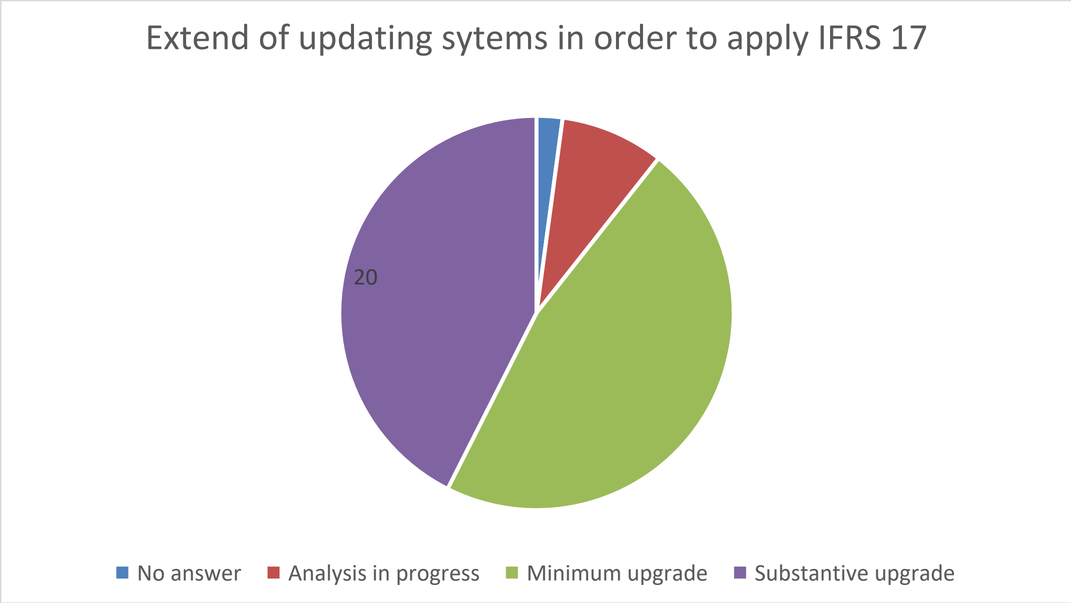
Estimates of cost

Question 7

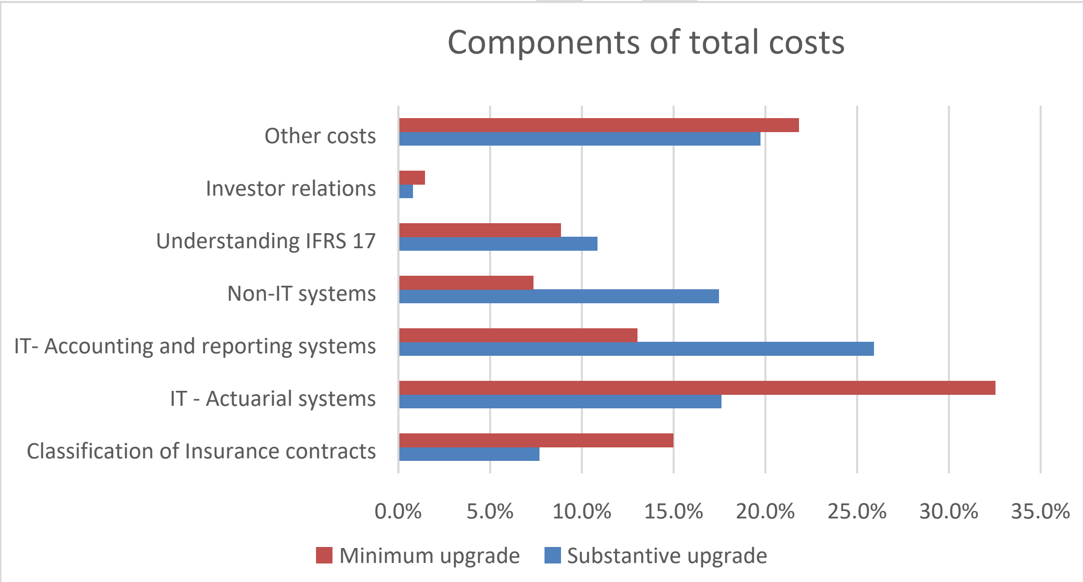
Are you planning to adapt/upgrade your systems only to the minimum extent needed to apply IFRS 17, or are you planning a more substantive upgrade/review of your systems (e.g. for improved efficiency)?

Summary of respondents' comments

19 The chart below summarises the extent of updating systems in order to apply IFRS 17.



20 Both those respondents who considered a minimum and those who considered a substantive upgrade indicated that the expected one-off implementation costs of implementing IFRS 17 consists of the following components:



21 When stratifying the population between those who expected a minimum or a substantive upgrade, the standard deviation and average for each stratum expressed as a percentage of total costs over total assets were as follows:

Total costs/Total assets:

Extend of upgrade required	Standard deviation	Average
Minimum upgrade	0.18%	0.14%
Substantive upgrade	0.11%	0.14%

22 This indicates that respondents who expected a minimum upgrade had a 0.18% dispersion of how much of the total costs as a percentage of total assets is deviating from the average of 0.14%.

23 In contrast, those who expected a substantive upgrade had a 0.11% dispersion of how much of the total costs as a percentage of total assets is deviating from the average of 0.14%.

24 Compared to each other, those that considered a substantive upgrade had a much smaller dispersion than those that considered a minimum upgrade compared to their respective averages.

25 When stratifying the population between those that expected a minimum or a substantive upgrade, the standard deviation and average for each stratum expressed as a percentage of total costs over gross written premiums were as follows:

Total costs/Gross written premiums:

Extend of upgrade required	Standard deviation	Average
Minimum upgrade	1.83%	1.14%
Substantive upgrade	0.50%	0.71%

26 This indicates that the respondents who expected a minimum upgrade had a 1.83% dispersion of how much of the total costs as a percentage of gross written premiums is deviating from the average of 1.14%.

27 In contrast those who expected a substantive upgrade had a 0.50% dispersion of how much of the total costs as a percentage of total assets is deviating from the average of 0.71%.

28 Compared to each other, those that considered a substantive upgrade had a much smaller dispersion than those that considered a minimum upgrade compared to their respective averages.

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

(a) They are planning to adapt or upgrade the systems only to the minimum extent needed to apply IFRS 17;

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

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

30 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);

(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 significant additional effort;

(c) insurers are planning more complex changes than the minimum requirements; and

(d) insurers are planning a more substantive upgrade for 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.

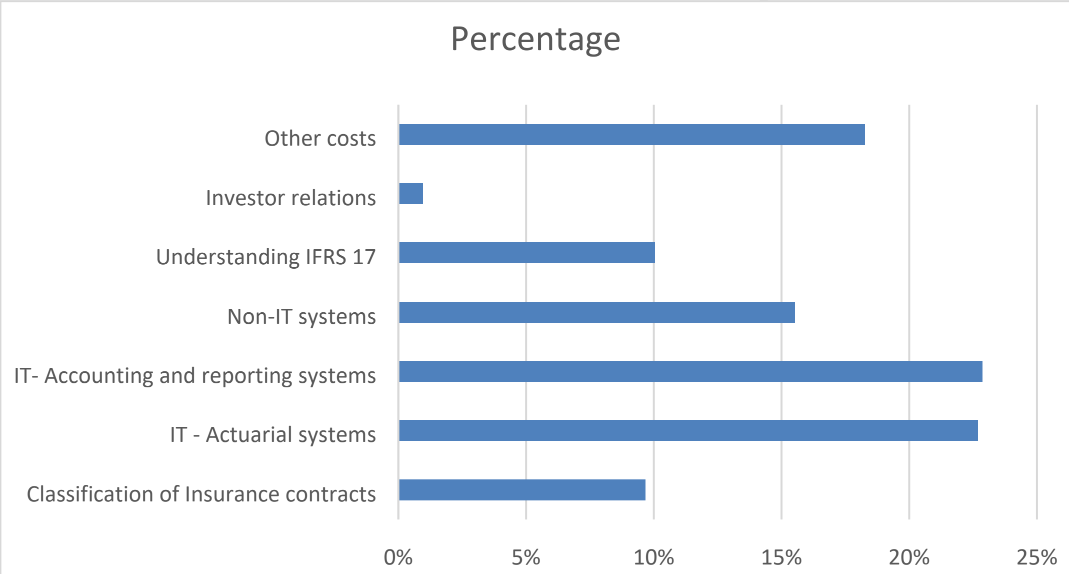
Implementation costs

Question 8

Please provide the expected **one-off** implementation costs of implementing IFRS 17. The comment column provides an opportunity to explain your responses. Please explain which requirements of IFRS 17 are expected to have the greatest positive or negative impact on one-off implementation costs and quantify that impact if possible.

Summary of respondents' comments

31 Respondents indicated that the expected one-off implementation costs of implementing IFRS 17 consists of the following components:



32 In order to give a reflection of the standard deviation and the average as a percentage of costs the population were stratified based on the following:

(a) total assets; and

(b) gross written premiums.

33 For the total assets the stratification were as follows:

Total assets	Less than 1 bn	More than 1bn but less than 20bn	More than 20bn but less than 50bn	More than 50bn but less than 100bn	More than 100bn
Standard Deviation	0.22%	0.17%	0.06%	0.04%	0.01%

34 From the above it can be seen that for the category with less than 1bn in total assets the standard deviation equals the average of 0.22% of total costs as a percentage of total assets. The category with more than 100bn in total assets had a 0.01% dispersion of how much of the total costs as a percentage of total assets is deviating from the average of 0.05%. This indicates that the answers provided for total costs as a percentage of total assets are closer to the average than any of the other categories. The average cost compared to total of assets for the category with more than 100bn did not go lower compared to the category with more than 50bn but less than 100bn. This effect is more outspoken when looking at costs compared to written premiums.

35 For gross written premiums the stratification were as follows:

Gross written premiums	Less than 1 bn	More than 1bn but less than 10bn	More than 10bn but less than 20bn	More than 20bn
Standard Deviation	2.46%	0.71%	0.29%	0.28%
Average	1.62%	0.88%	0.36%	0.43%

36 From the above it can be seen that for the category with less than 1bn in gross written premiums had a standard deviation of 2.46% and an average of 1.62% of total costs as a percentage of gross written premiums. The category with more than 20bn in gross written premiums had a 0.26% dispersion of how much of the total costs as a percentage of gross written premiums is deviating from the average of 0.52%. The average cost compared to gross written premiums for the category with more than 20bn increases significantly compared to the category with more than 10 bn but less than 20bn.

37 A similar analysis has been performed for the population of bancassurers where the total costs were compared to total assets and gross written premiums. The standard deviation and average were as follows:

	Standard deviation	Average
Total Assets	0.07%	0.09%
Gross Written premiums	3.84%	3.09%

38 This indicates that the total costs as a percentage of total assets is deviating 0.07% from the average of 0.09%.

39 In contrast, the total costs as a percentage of gross written premiums is deviating 3.84% from the average of 3.09%.

Ongoing costs

Question 9

> Do you expect ongoing costs of applying IFRS 17 to be greater than, equal to or less that your existing ongoing costs of applying IFRS 4 *Insurance Contracts* (IFRS 4)? Please explain which requirements of IFRS 17 are expected to have the greatest positive or negative impact on ongoing costs and quantify that impact if possible.

Summary of respondents' comments

40 Respondents expected some of the following requirements of IFRS 17 could increase ongoing costs:

(a) CSM recognition and tracking (12 respondents);

(b) 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 (11 respondents);

(c) Level of aggregation: Grouping and unit of account (a unit of account is maximum annual cohorts within three profitability buckets within portfolio's) requires more complex systems and data storage (11 respondents);

(d) Complexity of the standard requiring increased actuarial input to reporting, additional granularity of reporting and controls and on actuarial processes (10 respondents);

(e) Additional presentation and disclosure requirements due to (10 respondents):

(i) Judgements and assumptions;

(ii) Separation of finance income or expense from insurance service result; and

(iii) Balance sheet aggregation;

(f) Additional reconciliations with other reporting requirements (e.g. local statutory, Solvency II and other regulatory regimes) (6 respondents);

(g) Additional processes required for tracking and management of onerous contracts (3 respondents);

(h) Expected changes in the alignment of management reporting with IFRS 17 (3 respondents);

(i) The requirement to separate non-distinct investment components from revenue (3 respondents);

(j) Disaggregation of insurance finance income or expense into income statement and other comprehensive income will have a negative impact on hedge accounting (2 respondents);

(k) The difference in reinsurance under Solvency II and IFRS 17 will require the maintenance of a separate ledger and intercompany differences will increase as a result from differences in accounting for a cedant and reinsurer in a group with a captive insurer (2 respondents);

(l) Increased volatility (1 respondent); and

(m) Additional comparative information for the quarters of the year 2020 will lead to controllers having to interpret both the IFRS 4 and IFRS 17 reports (1 respondent).

41 With regards to the quantification of costs:

(a) Seventeen respondents quantified the extent to which ongoing costs will be affected by the introduction of IFRS 17. Additional costs were expected to be in the range of €1,5k – €20,500k;

(b) Three respondents did not expect the ongoing costs under IFRS 17 to differ significantly from applying IFRS 4; and

(c) Of the other respondents;

(i) Twenty provided qualitative explanations for a higher cost but indicated that the analysis is still in progress; and

(ii) Seven did not answer the question.

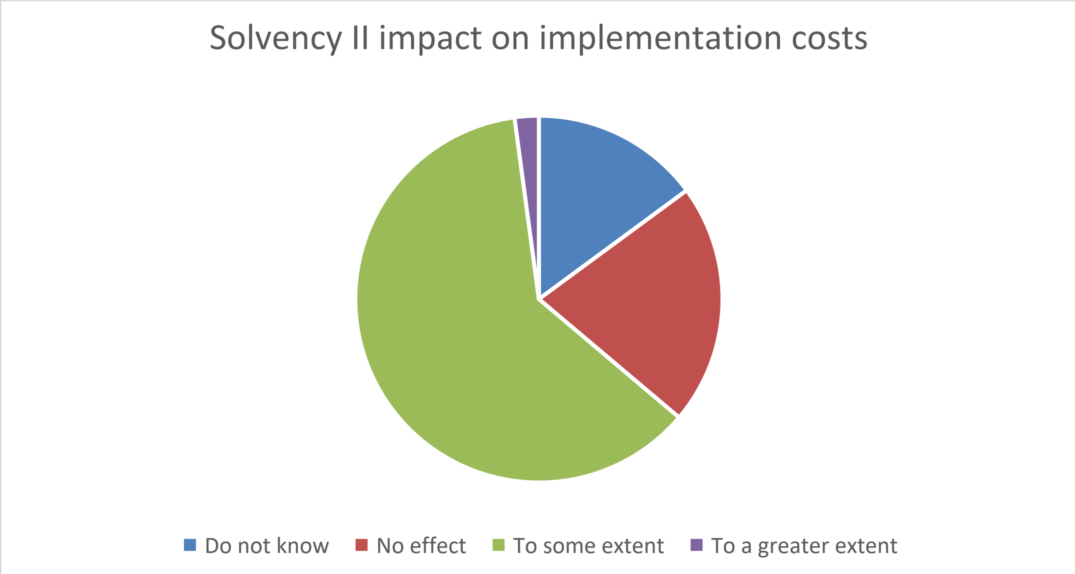
Impacts of costs of implementing Solvency II

Question 10

To what extent will the implementation of Solvency II reduce the costs of applying IFRS 17? Please indicate the effect in the table below and explain how the implementation of Solvency II have this effect.

Summary of respondents' comments

42 The following diagram summarises respondents' views of the extent to which the implementation of Solvency II will reduce the *implementation costs* of applying IFRS 17:



43 Specific remarks made by respondents were:

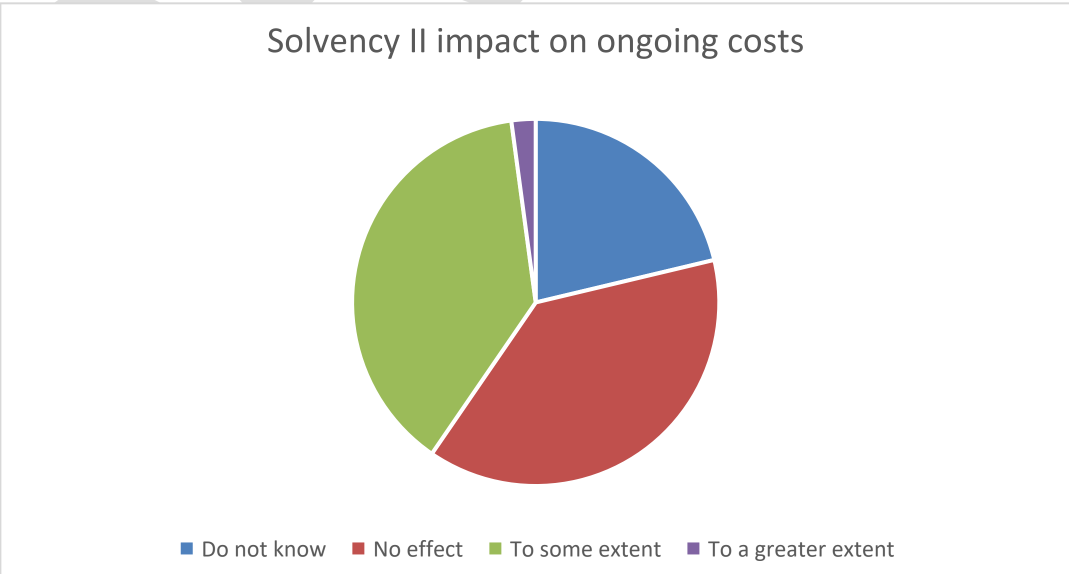
(a) Conceptually there are similarities between IFRS 17 and Solvency II in the current balance sheet. However, not all elements of Solvency II are re-usable for IFRS 17 (three respondents).

(b) Other remarks were that:

(i) The systems upgrade for Solvency II could reduce the overall cost of IFRS 17 implementation, in particular with respect to actuarial tools (one respondent).

(ii) Some benefit from work already done on granularity of data. However, as there are differences between Solvency II and IFRS 17 there will still need to be two sets of accounting records maintained (one respondent).

44 The following diagram summarises respondents' views of the extent to which the implementation of Solvency II will reduce the ongoing costs of applying IFRS 17:



45 The following specific comments were made by respondents:

(a) An analysis of movements is already produced for Solvency II can be partly reused for IFRS 17 (two respondents).

(b) The benefit on ongoing costs is expected to be limited, due to new IT licensing costs (one respondent).

(c) The work performed in the implementation of Solvency II will have no impact on the on-going costs of IFRS 17 (one respondent).

(d) Currently a process is in place whereby the Solvency II best estimate of the liability and the IFRS reserves are pretty much aligned. However, IFRS 17 will break this link and will in some areas double the analysis that needs to be performed. However it is difficult to quantify at this stage (one respondent).

Benefits

Question 11

For each of the potential 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.

Summary of respondents' comments

46 The quantitative responses have been summarised as follows:

	Summary of question	**Weighted average**	**1**	**2**	**3**	**4**	**5**	**n/a**
1	More comparable financial reporting information	**3.0**	2	13	20	9	3	1
2	Availability of options	**3.0**	1	13	15	15	1	3
3	Uniform Chart of Accounts	**2.1**	16	12	12	3	1	4
4	Level of aggregation	**2.2**	14	18	10	5	1	-
5	Resolving accounting mismatches	**3.1**	4	9	15	15	3	2
6	Reflecting the economics of the business	**2.6**	6	18	12	7	3	2
7	Current accounting	**2.6**	6	16	18	6	2	-
8	Reasonable approximation under the Premium Allocation Approach	**3.7**	2	2	9	22	7	6
9	Specific measurement guidance	**3.0**	2	10	21	10	3	2
10	Enhanced integration between risk management and financial reporting	**2.4**	8	19	14	7	-	-
11	Sharing of risks	**2.7**	6	7	9	6	2	18

Notes:

n/a relates to questions where there was no response or where the respondent indicated that the aspect does not apply to them or it has not yet been assessed.

Question 12A

Do you consider that, compared to the current situation of applying IFRS 4, the application of IFRS 17 could potentially improve the quality of financial information available in financial statements prepared using IFRS 17? Please explain.

Summary of respondents' comments

47 The table below summarises the respondents' comments:

	# of respondents
Yes	22
Yes, but with limitations	11
No	11
Not initially, but may over time	1
Significant training of users will be required	1
Uncertain	2
No answer	1
Total	**49**

48 Respondents that consider that IFRS 17 would improve the quality of information mentioned the following reasons:

(a) The application of consistent principles for measurement of insurance contracts and the reduction of the wide diversity in practice that currently exists for similar contracts;

(b) Usefulness of disclosures such as CSM (run-off of future profits) and risk adjustment; and that

(c) The highlighting of "loss-making" lines of business is useful.

49 31 respondents thought that there is potential to improve the quality of financial information – their support ranged from marginal to positive, but this would only materialise in the longer term. In the short term, there may be an adverse impact whilst users of the financial statements adjust to the new standard."

50 Negative comments included:

(a) the various options and alternatives available under IFRS 17 as well as that the new terminology and methodology used could lead to a decrease of useful information.

(b) the transition options would not lead to meaningful information.

(c) Users will need significant knowledge to understand the information provided as well as the impact of estimates and judgements on the financial statements to compare results of different entities.

Question 12B

The application of IFRS 17 could lead to an increased understanding of the insurance sector by capital providers and investors? Please explain.

Summary of respondents' comments

51 Respondents' comments are summarised as follows:

	# of respondents
Yes	22
No	12
Not initially	4
Significant training of capital providers and investors will be required	3
Uncertain	3
Using PAA – therefore no significant change	1
Yes, but with limitations	1
Did not answer	2
Total	**49**

52 Comments received include the following.

(a) One respondent considered that CSM allocation better represents insurance revenue than written premiums;

(b) 21 respondents thought that consistency in accounting for insurance and reinsurance contracts across various jurisdictions along with the required disclosures will make it easier for both capital providers and investors to understand and compare the results of an insurer. However, several limitations to the understandability and comparability remain. These include the number of policy options, the potential for differing interpretations as well as users' need for IFRS 17 expertise.

(c) One respondent thought that CSM allocation does not better represent insurance revenue than written premiums, given, in their territory, the level of disclosures and calculation methods currently used for IFRS, Solvency II SFCR reporting and MCEV reporting.

(d) One respondent thought that comparability will be impaired, and the complexity of insurance accounting will be considerably increased under IFRS 17 until market standards are established.

Question 12C

The application of IFRS 17 could have a possible positive effect on the cost of capital of insurers? Please explain.

Summary of respondents' comments

53 The table below summarises the respondents' comments:

	# of respondents
No	23
Analysis is in progress	8
Consider IFRS 17 irrelevant given Solvency II requirements	4
Uncertain	4
Yes	4
Did not answer	3

	# of respondents
Not initially	2
Studies are needed to conclude	1
Total	**49**

54 Many respondents did not think that the introduction of IFRS 17 would reduce their cost of capital for the following reasons:

(a) Cost of capital is assessed on a realistic basis that is not dependent on accounting figures;

(b) Increased complexity results in more uncertainty;

(c) Operational concerns about level of aggregation and CSM release;

(d) The deferral of distributable profits on an IFRS 17 basis compared to current accounting; and

(e) Higher volatility.

55 Some considered that the calculations of cost of capital under Solvency II would not change whilst others pointed out that it is hard to predict given the importance of Solvency II and local regulatory standards. Additionally, IFRS 17 leads to a structural cost increase given the additional cost.

56 One respondent considered that the enhanced transparency of IFRS 17 will help enhancing confidence in the sector which may reduce the cost of capital. Another considered that the improved comparability and more transparent information about profitability could reduce the cost of capital.

Question 12D

The application of IFRS 17 could lead to an increased understanding of the insurance sector by other stakeholders? Please explain.

Summary of respondents' comments

57 Respondents' comments are summarised as follows:

	# of respondents
No	23
Significant training of users will be required	6
Yes	6
Not initially	3
Analysis in progress	3
Using PPA – therefore no significant change	1
Yes, but with limitations	1
Did not answer	2
Total	**49**

58 Respondents that did not think that understanding would increase provided the following reasons:

(a) Stakeholders, excluding sector supervisors, might not have a deep knowledge of insurance sector and products;

(b) The complexity of IFRS 17 could reduce the understanding of stakeholders with limited technical/accounting/actuarial knowledge, especially in the short and medium-term.

(c) The complexity of the information provided. There was also a concern that stakeholders will use only limited KPIs, like amount of CSM and insurance revenue without understanding the underlying mechanisms and related estimates and judgements.

59 Some respondents expected that IFRS 17 could lead to an increased understanding of the insurance sector in the long term, but that initially stakeholders will require time to become accustomed to the changes. Others emphasised that it depends on the level of knowledge of the stakeholders and some considered it unlikely that accounting by insurers will be accessible to generalists.

Performance indicators

Question 13

Please identify the five main performance indicators (KPI) you use internally for managing your business, explain how these are calculated and the expected change (if any) under IFRS 17.

Summary of respondents' comments

Internal

60 Respondents listed 91 different key performance indicators. Many of these were only used by one or two insurers. Only a few indicators were used by more insurers, the *most important ones* are listed below.

Performance indicator	Number of respondents
Combined ratio*	31
Gross written premiums	18
SCR/Solvency II ratio	16
Return on equity	13
Claims ratio	10

*Includes variants such as net or gross versions.

61 Respondents saw the following changes arising from the introduction of IFRS 17:

Performance indicator	Expected change
Combined ratio*	Some stated the ratio would no longer be used because premiums are no longer an accounting metric under IFRS 17. Others provided input on how IFRS 17 metrics could be integrated in the calculation of the ratio. However, no overall clear view occurred.
Gross written premiums	Some noted that premiums are no longer an accounting metric under IFRS 17. Others expected no change as the ratio would continue to be used as a non-GAAP measure. Some expected this ratio to be replaced by insurance revenue under IFRS 17.

SCR/Solvency II ratio	Most respondents expected no change to this ratio. One respondent expected a change to the deferred tax base.
Return on equity	Some respondents noted the impact of the OCI option on this ratio. One respondent expected a higher volatility and different dynamics in net income.
Claims ratio	One respondent noted that insurance revenue would be added to the denominator.

External

Question 14

Please identify the five main performance indicators (KPI) you provide to external investors, explain how these are calculated and the expected change (if any) under IFRS 17.

Summary of respondents' comments

62 Respondents listed 80 different key performance indicators. Many of these were only used by one or two insurers. Most respondents used their internal key performance indicators also externally. Nonetheless, the capital ratios and the return on equity are more prevalent in communication with external stakeholders. Only a few indicators were used more often, insurers, the most important ones are listed below.

Performance indicator	Number of respondents
Combined ratio*	25
SCR/Solvency II ratio	20
Return on equity	17
Gross written premiums	14
Claims ratio	8

63 Expected changes to these indicators are discussed in paragraph 61 above.

Asset-liability management

Question 15

To what extent do you hold assets to back specific liabilities and to what extent do you hold assets in a general fund?

Summary of respondents' comments

64 41 respondents answered this question, of which 20 generally held assets that back specific liabilities (averaging 87% of their assets) and 21 that generally held assets in a general fund (averaging 88% of their assets).

Question 16

(A) Do you expect that IFRS 17 will change your current investment strategy and/or approach to asset allocation? (B) If you answered YES, please explain what changes you expect and why this will result from the application of IFRS 17.

Summary of respondents' comments

65 Respondents provided the following answers:

Yes	No	Do not know	Did not answer
14	17	13	5

66 For those that answered yes, it was noted that economically risks are unchanged by the introduction of IFRS 17, but the accounting would make these risks more visible than today. As a result, the overall expectation was that changes to the investment strategy will be caused by:

(a) the interaction between IFRS 17 and IFRS 9 rather than solely by IFRS 17; and

(b) the aim to align the accounting with the Solvency II requirements in order to achieve the most beneficial treatment under both frameworks (reducing volatility in accounting and enjoying a reduction in capital requirements). In case volatility was accompanied by high profitability, volatility would be accepted. However, the Solvency II framework was expected by one respondent to remain the main benchmark for management. This may create tensions where the accounting and the regulatory treatment do not provide similar "incentives".[5]

67 Several respondents expected an increase in hedging and/or hedge accounting. A more granular approach to hedging/hedge accounting was expected. Also the use of derivatives was expected to increase (e.g. more purchases of forward starting interest rate swaps and other interest rate hedge instruments).

68 Several respondents expected changes in the asset mix as follows:

(a) Increasing use of hedge accounting: in order to minimise accounting mismatches, more investment in FVOCI assets was expected;

(b) Change in discount rates:

(i) the use of swap-rates instead of gilt-based discount rates increases the desire for higher swap holdings in order to achieve a better matching;

(ii) in some cases the duration of the assets would be changed in order to achieve an acceptable matching position for IFRS 17 profits; and

(c) One respondent noted potential lower investment in both equities and assets at cost.

[5] Under SII, for unit-linked products, one is penalised when holding the insurer's share in underlying assets in the unit funds. This is because the unit funds often invest in equities, which regulators see as a risky investment category for insurer's own funds. As a result, practices like "unit matching" have arisen. - Under IFRS 17, one will only receive favourable accounting treatment (current period book yield approach) when holding all the underlying assets. This includes the insurer's share.

Part B – Quantitative information

1 16 respondents contributed to Part B of the case study. Of those 16 respondents, only 7 respondents contributed to most or all of the questions. The remaining 9 respondents only provided general comments.

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

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

Step 4.1. Transition

3 For the selected portfolio, quantify the impact on opening retained earnings and other components of equity as reported under current GAAP.

4 Of those respondents that answered this question, the following information was provided:

Impact on retained earnings, nr. of respondents			**Reasons for the change**
Up	**Down**	**No or non-significant**	
0	4 of which 2 are using fair value as a transition method to the chosen portfolio(s)	4 of which 3 are using fair value as a transition method to the chosen portfolio(s)	• Recognition of a CSM; • Discounting effect; • Use of risk adjustment; • Cancellation of available for sale reserve at transition; • Recognition of a loss component; and • Difference between market value and book value of the assets.

Step 4.2 Overall measurement

5 To be completed.

Step 4.3. Scope of Variable Fee Approach

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

6 Those respondents that answered this question provided the following information:

	Yes	**No**
	2	3
Reasons provided	•	• VFA should also apply to ceded business • Whole annuity contracts should be eligible whatever the relative proportion of the investment and insurance components • Reinsurance contracts should be eligible for the VFA.

Step 4.4. Separating components of insurance contracts

> Applying your current accounting requirements to the selected portfolio, do you separate any components from your insurance liabilities and measure them differently? If so, please explain why these are separated.

7 Those respondents that answered this question provided the following information :

Current accounting: unbundling applied to selected portfolios	**IFRS 17: for selected portfolios, is there need to separate components**
• No unbundling applied today (5 respondents) • Unbundling is applied today 1 respondent	• No separation required under IFRS 17 (6 respondents)

Step 4.5 Level of aggregation

> IFRS 17 describes portfolios as comprising contracts subject to similar risks and managed together. In this case study:
>
> (a) was the product type you chose the same, smaller or larger than a portfolio as defined by IFRS 17?
>
> (b) was the portfolio you chose the same, smaller or larger than a portfolio as defined by IFRS 17?

	Larger than IFRS 17	**Smaller than IFRS 17**	**Identical to IFRS 17**
Product type chosen	2		4
Portfolio chosen	4	2	

> For the selected portfolio:
>
> (a) Indicate the number of groups this would comprise under current GAAP;

(b)	Indicate the number of groups this would comprise if you had applied the grouping requirements under IFRS 17 rather than the exemption at transition; and
(c)	Explain the difference.

No of groups current accounting	**No of groups IFRS 17**	**Clarification**
1	2	• Separation between onerous and non-onerous contracts
1	1	• No additional disaggregation is required, either in terms of profitability or in terms of underwriting
1	4	• Separation between onerous and non-onerous contracts + creation of two cohorts
1	Min 12	• Minimal business prior to 2011
1	150	• 44 historical cohorts applied to 3 main product lines + additional groups for newly added products
1	3	• The level of granularity applied under IFRS 17 is the same as applied for the liability adequacy test, i.e. the segregated fund level. Only new business will now be followed separately.

For the selected portfolio:

(a)	How many of the groups are onerous under IFRS 17 and were any of these groups considered onerous under your current GAAP?
(b)	What is the overall amount of loss (i.e. the loss component for remaining coverage) 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 as defined by IFRS 17 and what is the net loss after risk sharing as defined in IFRS 17?
(e)	What is the result of the IFRS 4 liability adequacy test?

No of current onerous groups	**No of IFRS 17 onerous groups**	**IFRS 17 onerous groups caused byasset returns?**	**% covered by risk sharing**	**Result of LAT**	**Overall amount of loss**

One loss component	1	Principally due to asset returns	Loss is net of risk sharing	x[6] mio	9.9x mio
0	0	Not significant	Not significant	Positive	Not significant
0	0	None	n/a	n/a	n/a
0	1	None	No impact	Positive	Amount x
1	2	Different hypothesis about asset returns and discount rate	Loss is net of risk sharing	x[7] mio	1.75x mio
-	-	n/a	n/a	Positive	n/a
n/a	n/a	n/a	n/a	Positive	n/a

(A) If you identify future cash flows at a higher level of aggregation than group level, explain your process of allocating those cash flows to particular groups.

(a) Cash flows need only be allocated to the level of a group when onerous groups are identified. In that case allocation will be done in a systematic manner;

(b) The ALM projection in the actuarial software is based on model points approach; and

(c) The present value of future cash flows is used as a driver to split cash flows over the different groups.

(B) If you identify future cash flows at a higher level of aggregation than group level and these cash flows fully share risks please explain how you ensure that the CSM is fully derecognised when all the contracts in a group are derecognised and that it is recognised in the correct periods?

(a) One respondent used two allocation drivers for assigning CSM to cohorts (account value and amount of variable fee), but found no or insignificant impact on the P&L pattern. The respondent did not include his calculations in the case study response; and

(b) One respondent was confident that CSM is derecognised since the coverage unit pattern is defined according to actual information related to each group of insurance contracts considered. The respondent did not include calculations in the case study response.

Step 4.6 Economic mismatches

For the selected portfolio:

[6] The exact amount has been omitted for confidentiality reasons.

[7] The exact amount has been omitted for confidentiality reasons.

> (a) Identify the economic characteristics of the liabilities (duration, transactional currency, jurisdiction issued, fixed or variable guarantees, options included, etc);
>
> (b) Taking into account the fund where the assets are held, identify the economic characteristics of the covering assets (duration, transactional currency, jurisdiction located, fixed or variable interest rates, options included, sensitivity to re-allocation, etc);
>
> (c) Quantify any economic mismatch between the insurance liabilities and the corresponding assets and explain what strategy, if any, is used to minimise the economic mismatch.

8 Of those respondents that answered this question, the following information was provided:

(a) Each portfolio is subject to asset-liability mismatch constraints;

(b) The economic mismatch is mainly a currency mismatch, which is partially covered by currency derivatives. The duration mismatch is due to the fact that the portfolio is in in run-off for projection purposes;

(c) For multifund products, the main economic mismatch sits in the will to measure long term contracts with a market consistent approach. The gap in duration between assets and liabilities, together with different options, brings volatility in the CSM; and

(d) The economic characteristics of the assets that would be considered for economic matching are duration and transaction currency. The longer liability duration in comparison to asset duration in the selected portfolio gives an economic mismatch that exposes the insurer to interest rate volatility.

Step 4.7 Accounting mismatches

> For the selected portfolio:
>
> (a) Identify the asset-types that correspond to those liabilities and how these are accounted for today and under IFRS 9.
>
> (b) Taking into account the fund where the assets are held, are the assets held to back specific liabilities or held in a general fund?
>
> (c) When using a general fund, explain the methodology used to allocate assets to the corresponding liabilities.
>
> (d) Quantify any remaining accounting mismatch between the insurance liabilities and the corresponding assets.

9 Of those respondents that answered this question, the following information was provided:

(a) The remaining mismatch in OCI would be for financial assets measured at amortised cost under IFRS 9;

(b) Residual accounting mismatches only occur if:

(i) There is a loss component in the group;

(ii) There are assets classified at amortised cost under IFRS 9;

(iii) There is an excess of assets over liabilities in terms of volumes; and

(c) There will be a mismatch where the asset yield does not meet the market consistent yield for the liabilities. This will be minimised for large, well-diversified investment portfolios which should earn similar to the market consistent liability assumptions for BEL and RA. There will be a mismatch for the CSM which will be calculated at the locked in rate, whereas assets will yield the current rate.

> For the selected portfolio:
>
> (a) Identify which accounting policy choice for insurance finance income or expense under IFRS 17 you would apply.
>
> (b) Compare any remaining accounting mismatch with any accounting mismatch under current accounting.

10 Of those respondents that answered this question, the following information was provided:

(a) All remaining mismatches are present under current GAAP as well;

(b) The remaining mismatch would be for financial assets measured at amortised under IFRS 9. A change in fair value of these assets would be recognised in the liabilities and not in the assets which would impact the OCI.

Step 4.8 CSM allocation patterns

> For the selected portfolio:
>
> (a) Explain how coverage units are assigned over the life of the selected portfolio;
>
> (b) Quantify the CSM allocation to profit or loss for the entire duration of the portfolio;
>
> (c) Compare this with your previous methodology for recognising "revenue" or any other KPI used under your current accounting requirements; and
>
> (d) Quantify the difference over time.

11 Of those respondents that answered this question, the following information was provided:

(a) One respondent used three CSM allocation drivers:

(i) Based on the account value of technical reserves;

(ii) Based on the emergence of financial margin; and

(iii) Based on the discretionary participation payment.

(b) Coverage units have been assigned using a ratio computed as follows: surrender value at the beginning of the period/ [surrender value at beginning period + present value of surrender values]. This driver represents the fraction of the assets managed for the policyholders during the current period compared to the present value of the assets over the life of the contract; and

(c) We used as coverage unit the sum assured of each group of insurance contracts considered.

Step 4.9 Insurance finance income/expenses

> For the selected portfolio:
>
> (a) Explain your current methodology to determine insurance finance income/expense over the life of the contracts involved;
>
> (b) Quantify the outcome over the life of the contracts involved under current accounting;
>
> (c) Quantify financial income/expense under IFRS17; and
>
> (d) Explain the difference.

12 Of those respondents that answered this question, the following information was provided:

(a) Under current GAAP no effect of time value of money is considered. The finance income and expense under IFRS 17 for non-life refers to the effects of unwinding and change in discount rates applied for the calculation of the liability for incurred claims.

(b) Under IFRS 4 a part of the financial margin is recognised in the financial results while all the financial margin is recognised in the insurance result in IFRS 17.

For the selected portfolio, 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.

13 Of those respondents that answered this question, the following information was provided:

(a) Finance result does not represent the real investment result of the insurance undertaking since part of gains and losses are included in the CSM amortisation and release within the insurance service result;

(b) Because the selected portfolio is measured using the VFA and there is no significant economic mismatch, there will be no finance result if the OCI option is used or if all asset are measured at fair value. This makes a significant change compared to current accounting, where the “financial margin” is an important indicator of the performance of saving contracts. As a consequence, until the users have fully grasped the mechanism of the VFA, it can be expected that the financial performance of such contracts be perceived as less understandable;

(c) For non-life business, the new items considered within the finance results, that represent financial income/expenses relating to the cash flows discounting for valuating technical provisions (items not considered under current GAAP), will deliver consistent and understandable reporting of financial performance for insurance contracts; and

(d) Complexity in producing and understanding IFRS 17 results will limit the expected greater transparency and complexity of financial statements. Hence to mitigate this, we suggest to significantly reduce some required disclosures or requirements such as the need for annual cohorts for fully mutualised VFA contracts.

Step 4.10 Direct insurance combined with reinsurance

Only answer this question if you reinsure part or all of the selected portfolio. Please explain how you account for the combination of direct insurance and ceded reinsurance under your current accounting practices and provide the following information.

14 Of those respondents that answered this question, the following information was provided:

(a) Under current accounting the premium revenue and reinsurance expense are recognised in line with the pattern of the incidence of risk over the period of the contract. The net outstanding claims provision comprises the gross estimate of expected future claim payments less amounts recoverable from reinsurers on the gross estimate. Under IFRS 17 both indirect insurance and ceded reinsurance contracts will qualify for the PAA and therefore the accounting is expected to be similar.

(b) Under IFRS 17, when the General Model is used to measure the ceded result of a quota share treaty, the actual percentage of profit ceded to the reinsurer is disconnected from the share of the risks ceded to the reinsurer. When there are changes in the estimates of future fulfilment cash flows triggered by changes in the economic environment, the overall effect is immediately recognised in the profit ceded to the reinsurer while it is included in the CSM of the insurer and recognised in P&L over the life of the contract.

Step 4.11 Sharing of risks

Does the selected portfolio share risks with other insurance portfolios?

	Yes	**No**
	4	4
Proportion of risks that are shared	• All risks. • Sharing of the unrealised financial gains and losses among policyholders, i.e. new policyholders inherit unrealised gains and losses of the assets backing existing business. • Not specified.	N/a

Step 4.12 Discretionary cash flows

Does the portfolio benefit from cash flows that are attributed on a discretionary basis by the insurance entity?

	Yes	**No**
	4	3
To what extent?	• The discretionary features arise from how the assets are managed and from how/when gains and losses on assets are realised. The degree of participation is variable among different policyholders and could be based either on a specific ratio of the book return of the assets or based on a certain rule specified in the contractual terms; • The discretionary feature comes in addition to the legal and contractual sharing mechanism. The participating feature represents 95% of the financial results.	

Step 4.13 Overall impact

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

15 Respondents did generally not answer the question, but mostly provided a list of suggestions to change the Standard.

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

Yes	**No**	**Do not know**
3	3	4

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

16 Two respondents noted that in a stress scenario, the result pattern will be significantly impacted by the volatility of listed and unlisted equities, private equity and infrastructure.

Step 4.14 Overall comment

Do you have any other comments on the application of IFRS 17 that are not addressed in the questions above? Please explain.

17 In response to this question, respondents generally repeated their suggestions to change the standard.

18 Further comments included:

(a) The IFRS 17 impact cannot be analysed in isolation and is highly dependent on the match with IFRS 9. Looking at the interrelationship between these IFRS's we identify issues related to the:

(i) approach used for risk mitigation requiring a potential change in asset allocation, use of financial instruments and risk management strategy;

(ii) use of the OCI option for financial risk; and

(iii) availability of hedge accounting to address accounting mismatches.

(b) Global application of IFRS 17 should be maintained with support for a comprehensive international standard on accounting for insurance contracts to bring comparability to insurance companies within the global economy. We do not support an EU-only solution to IFRS 17 as we consider that an EU-only solution will undermine the important benefit IFRS 17 has to bring global comparability amongst insurance companies. A global solution is especially important for IFRS 17 due to the long-term nature of insurance liabilities. Should EFRAG deem a deferral be required to give sufficient time to make improvements to IFRS 17, we strongly suggest that EFRAG work with the IASB to achieve a common global mandatory effective date, through an amendment to IFRS 17.

(c) A deferral of IFRS 17 is necessary because the existing application date of IFRS 17 does not allow insurance undertakings to build a solid base for financial information production.