This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

IFRS 17 Insurance Contracts
Paragraphs to update in the economic study following January EFRAG IAWG meeting

Introduction

1 The EFRAG Board, in its 18 December 2019 meeting, instructed the EFRAG Secretariat to request the external consultant to update the economic study. In particular, updates are needed to (a) verify whether the views of the industry have changed taking into account the proposed Amendments to IFRS 17; (b) take into account the latest statistical data that are available as of today; (c) assess whether the conclusions would be different if we had to consider the persisting negative interest rate environment.

2 At the January 2020 EFRAG IAWG meeting, several comments for clarification/update were made with reference to contents of the Economic study (which will be subject to an update) when discussing Appendix 3. These paragraphs are highlighted in grey below and the paragraph numbers are consistent with Agenda paper 10-04. These paragraphs will be communicated to the external consultant in order to be clarified/updated.

Paragraphs in the economic study which require an update/clarification

Paragraphs in Agenda paper 10-04	Text
46	The economic study commissioned by EFRAG noted that the cost of capital of insurers is higher since the financial crisis of 2008 (especially in Germany, France and UK) compared to other industries and has not fully reversed. This implies that investors are asking a risk premium in providing capital to the insurers.
82	The majority of life insurance undertakings interviewed, instead, 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.

Paragraphs in Agenda paper 10-04	Text
84	Therefore, it is possible that IFRS 17 could lead to a perceived weakening of the financial strength of entities due to lower perceived retained earnings.
93	Nevertheless, the majority of insurance undertakings believe that the implementation of IFRS 17 will worsen their competitive position in the segment "Credit Suretyship". The reason is that IFRS 17 will require insurance undertakings to adopt current value accounting practices, which implies that the volatility of the market will be reflected in the P&L. Some insurance undertakings interviewed expressed their concern that this volatility might be even greater for corporate segments where the frequency of claims is already high (such as credit insurance, which relates back to the European economic stagnation).
97	Furthermore, the majority of stakeholders who provided input into the economic study commissioned by EFRAG expressed concern about the treatment of reinsurance contracts under IFRS 17 and that it could add a non-economic pricing constraint to mitigate perceived losses in the financial reporting due to accounting mismatches. Further, any implications to the pricing of reinsurance which can be acquired will also impact on the pricing of the underlying contract to the policyholder.
109	A trend emerging from interviews with industry stakeholders (especially life insurance undertakings) is that IFRS 9 and IFRS 17 will encourage the use of less volatile and more liquid assets.
110	With a focus on the life insurance segment, insurance undertakings interviewed expressed their concerns for the underlying tension between accounting and business model. It is argued that life insurances are long term investment products, whereas the accounting is much focused on the short term. According to them, reporting assets at market values (as foreseen in IFRS 9) could expose life insurers to market risks and lead to a misalignment between the interests of policy-holders and insurance entities by impacting the earnings profile of the company.
112	In relation to their asset-liability management, most insurance undertakings also commented that hedging is not appropriately dealt in IFRS 17… Entities using economic hedging and risk mitigation techniques usually want to present information about this in the financial statements in a way that reflects management practices (PWC, 2017) and will have two solutions to achieve this: (a) the risk mitigation exception in IFRS 17 for insurance liabilities; or (b) hedge accounting in IFRS 9.
113	However, it is likely that insurers might not be able to reflect all economic risk mitigation in the financial statements in line with the risk management practices. Insurers might choose to use non-GAAP measures in such situations to explain risk management practices to

Paragraphs in Agenda paper 10-04	**Text**
	the users of the financial statements in common with entities in other industries (PWC, 2017).
132	Industry stakeholders expressed a concern that the adoption of IFRS 17 may increase the volatility of the P&L due to accounting mismatches and this may distort a company's financial position and performance. The limited economic literature on the topic of the effects of income smoothing suggests that the cost of capital of insurance undertakings showing greater volatility may increase, and hence impact adversely on their competitive situation in capital markets (mainly in international bond markets) where they compete for funds against insurers not having to implement IFRS 17.
137	Industry stakeholders are concerned that IFRS 17 may make it more difficult to compare the financial statements with those of insurance undertakings from countries not adopting IFRS 17, thus losing competitiveness in the eyes of global investors.
221	Based on the results of the economic study commissioned by EFRAG, the degree of competition within European markets is relatively low.