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Re: EFRAG's draft comment letter on the IASB ED/2019/4 Amendments to IFRS 17

Dear President Gauzès,

We appreciate the opportunity to give feedback on the EFRAG's draft comment letter referring to IASB's Exposure Draft, *Amendments to IFRS 17*.

Allianz is one of the largest insurance groups in the world. We anticipate that the new insurance accounting standard will impact all aspects of our financial reporting. Therefore the development of a high quality financial reporting standard for insurance contracts is of paramount importance to us.

As a member of the European Insurance CFO Forum and the Hub Global Insurance Group, we would like to stress that we fully support the input provided by these organisations to EFRAG's comment letter. This comment letter summarises the positions of Allianz in more detail, and gives context to the detailed responses to specific questions posed in the ED, which are set forth in the pages that follow.

We would like to express our appreciation for EFRAG's positions on the proposed amendments to IFRS 17 provided within short time after the publication of the exposure draft. From our perspective, the majority of the amendments has a positive impact since they either lead to significant cost savings (e.g. the amendment to the balance sheet presentation) or contribute to more appropriate results (e.g. insurance acquisition cash flows and the CSM amortisation for the investment-return services under the general measurement model).

Overall, the proposed amendments to IFRS 17 represent an improvement compared to the original standard issued in 2017. In particular, we support the following amendments as they address topics of high relevance for Allianz:

- Insurance acquisition cash flows relating to expected contract renewals;
- Presentation in the statement of financial position;
- Application of the risk mitigation option prospectively from the transition date in combination with the possibility to apply the fair value approach if the group meets the specified criteria relating to risk mitigation;
- Reinsurance contracts held: Recovery of losses on underlying insurance contracts;
- Contractual service margin release attributable to investment-return service and investment-related service.

However, we also would like to address the following remaining concerns of high importance for Allianz:

- Level of aggregation – For contracts with direct participation features that are mutualized, the annual cohort requirement does not reflect the way in which the entity manages its business and therefore we recommend to remove the annual cohort requirement for such contracts. Further, we recommend to remove the annual cohort requirement for all contracts at transition. We believe this will significantly reduce operational complexities without affecting the outcome significantly.
- Transition – Due to the very restrictive limitations in the modified retrospective approach, the ability to apply this method may be limited in practice, forcing entities to apply the fair value approach. We believe that the criteria should be more principle-based.
- Interim reporting – Changes should be made to enable a consistent application of the year-to-date approach and to remove differences between IFRS preparers around the globe and between group and solo reporting that are solely due to differences in reporting frequency.
- Business combinations – The proposed amendment which allows that claims in payment at the acquisition date to be treated as incurred claims should be extended to business combinations after transition. In addition, in our view the amendment should be applicable irrespective of the transition approach applied.

We do not fully agree to the proposed minor amendments since some of them will cause exhaustive operational difficulties as well as a distortion in result presentation, in particular:

- IFRS 17.22 refers to the issue date when determining the group of contracts. This has been clarified by the IASB in April 2019. We believe that the relevant date should be the recognition date since the aggregation is required when the contracts are recognised. Using the issue date instead is operationally difficult as that date is not regularly available in the insurers' data bases.
- We do not agree to the amendment of paragraph B128 of IFRS 17 which clarifies that all changes in the measurement of a group of insurance contracts caused by changes in underlying items should be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk. The amendment will have the consequence that the presentation of profit sources in P&L is heavily distorted in case that the policyholder participates in non-financial underlying items, such as the risk result.

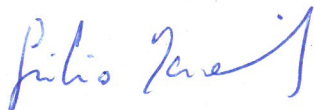
Further, in the course of the implementation we identified a significant issue relating to the accounting for variable fee approach (VFA) contracts containing certain non-participating features. Applying the current requirements would result in significant accounting mismatches in profit or loss for a number of contracts that are very common e.g. in the U.S. and Asian markets. This issue has not been part of the IASB's re-deliberations. Given the significance of the issue, we strongly believe a solution needs to be found. Further details including an illustrative example are summarized in our response in Appendix 3.

Allianz supports the amendment to defer the effective date of IFRS 17 and IFRS 9 by one year. However, we would like to emphasise our strong support to keep the effective date of IFRS 17 for financial years beginning on or after January 1, 2022. Our project progress is strictly aligned with this date and any further deferral would cause inevitable and unnecessary costs. The timely finalization of the discussions and the publication of the revised IFRS 17 is of high importance to provide clarity for the ongoing implementation activities. In addition we rely on a timely endorsement process in Europe, ensuring that well in advance of the effective date of January 1, 2022, an endorsed IFRS 17 is available for European preparers, ensuring a globally aligned effective date.

Allianz recognizes and appreciates EFRAG's significant efforts in developing and coordinating European views in the accounting for insurance contracts and participating in the IASB's standard setting process. We believe that resolving the issues mentioned above will increase the quality and operational practicability of the new insurance contracts standard substantially.

If you have questions or would like to discuss our comments in more detail, please contact us.

Yours sincerely,



Giulio Terzariol

Chief Financial Officer



Dr. Roman Sauer

Head of Group Accounting & Reporting

**Allianz Comments to EFRAG’s Draft Comment Letter on IASB ED/2019/4
Amendments to IFRS 17**

Appendix 1 – Overview

Areas where questions have been raised to Constituents in addition to the IASB's questions

It would be most helpful if you answer only those questions that are relevant to you.

- 1 Scope exclusions (paragraph 10, Appendix 1).
- 2 Expected recovery of insurance acquisition cash flows (paragraph 18, Appendix 1)
- 3 Contractual service margin attributable to investment-return service and investment-related service and disclosures about the profit recognition patterns (paragraphs 35 and 36, Appendix 1).
- 4 Reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 45 to 47, Appendix 1).
- 5 Presentation in the statement of financial position (paragraph 54, Appendix 1).
- 6 Applicability of the risk mitigation option (paragraphs 64 - 65, Appendix 1).
- 7 Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs 73 to 75, Appendix 1).
- 8 Transition modifications and reliefs (paragraphs 94 to 95, Appendix 1).
- 9 Minor amendments (paragraphs 99 to 105, Appendix 1)
- 10 Terminology (paragraph 110, Appendix 1).
- 11 Annual cohorts (paragraphs 140 to 143, Appendix 2).
- 12 Transition: Modified retrospective approach and fair value approach (paragraph 155, Appendix 2).
- 13 Balance sheet presentation: Non-separation of receivables and payables (paragraph 161, Appendix 2).
- 14 Reinsurance contracts: contract boundary (paragraphs 172 to 174, Appendix 2).

Question 1 - Scope exclusions**Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)**

(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

Do you agree with the proposed amendment? Why or why not?

(b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.

Do you agree with the proposed amendment? Why or why not?

EFRAG's response**Loans that transfer significant insurance risk:**

EFRAG supports the proposal to permit entities, on portfolio level, to either apply IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract.

Credit cards that provide insurance coverage:

EFRAG agrees with the exclusion of certain credit cards that provide insurance coverage from the scope of IFRS 17. This is because the exclusion reduces the implementation costs and operational burden for entities that issue credit card contracts for which the entity does not reflect an assessment of the insurance risk associated with an individual customer when setting the price of the contract with that customer. Furthermore, the exclusion is not expected to lead to a significant loss of useful information.

However, EFRAG is concerned that the term 'credit card' excludes payment cards which have similar clauses as the credit cards in the scope exclusion.

Question to Constituents

10 Paragraph B.4.1.9.E of IFRS 9 allows a regulated interest rate as a proxy for the time value of the money in applying the SPPI test, under certain conditions. EFRAG understands that in some countries the insurance element is not required by the regulation and, as a consequence, the financial instrument could fail the SPPI test and would have to be measured at fair value through profit or loss. How prevalent are these concerns within your jurisdiction?

General response

Allianz agrees with the proposed amendment. We believe that it will reduce the implementation costs and will give a faithful presentation of the economics. The topic is of minor relevance at Allianz.

Additional response to EFRAG

We do not have any specific comments on the scope of these amendments regarding the payment and/or the impact on the SPPI test since credit cards and loan contracts do not reflect the business at Allianz significantly.

Question 2 - Expected recovery of insurance acquisition cash flows**Question 2 - Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)**

Paragraphs 28A–28D and B35A–B35C propose that an entity:

- (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group;
- (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and
- (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

Paragraphs 105A–105C propose disclosures about such assets.

Do you agree with the proposed amendments? Why or why not?

EFRAG's response

EFRAG supports the IASB's proposals with regards to the treatment of acquisition cash flows as the resulting financial information will better reflect the economic substance of these transactions. EFRAG supports the allocation of the acquisition cash flows to the contracts to be a mandatory requirement. EFRAG agrees with the proposed recoverability assessment approach.

Question to Constituents

18 Insurance contract renewals are not a defined term which may lead to diversity in practice when allocating insurance acquisition cash flows. Do you consider that insurance contract renewals should be defined in order to achieve comparability and, if so, how would you define them?

General response

We support the amendment since the consideration of expected renewals addresses the economic substance more appropriately. The recoverability assessment ensures the asset for insurance acquisition cash flows to be impaired timely in case of events affecting the recoverability of the underlying cash flows.

Additional response to EFRAG

Considering a principle based understanding of IFRS 17 we do not regard an explicit definition of "renewal" to be necessary. Moreover, we do not expect diversity in practice regarding the interpretation of the term "renewal".

Question 3 - Contractual service margin attributable to investment-return service and investment-related service**Question 3 - Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44–45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66)**

(a) Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage. Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

(b) Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

EFRAG's response

EFRAG supports the IASB's proposals regarding contracts under the general model. Some contracts under the general model include investment activities and the proposal will ensure that the contractual service margin (CSM) that will be allocated to profit or loss will reflect both insurance and investment return services provided to the policyholder.

EFRAG also supports the IASB's proposals regarding contracts under the variable fee approach because these contracts are substantially investment-related contracts.

EFRAG considers that the disclosure proposals related to CSM amortisation will provide useful information to users of financial statements.

Question to Constituents

35 EFRAG has been informed of possible fact patterns of deferred annuities for which there is no investment component as defined by the ED, nor a right to withdrawal; however, the insurance entity performs asset management activities, revenues of which would not be captured in the CSM release. For example, for particular Deferred Annuities, there is an accumulation phase followed by the annuity phase. The policyholder's beneficiaries receive no return if the policyholder

dies during the accumulation phase. During the annuity phase, a surviving policyholder receives a fixed annuity amount based on premiums/technical provisions. In these deferred annuities the policyholder does not have a right to withdraw during either the accumulation phase or the annuity phase. Do you have additional examples of investment activities that are not captured by the proposals in the ED?

36 Entities have to provide quantitative disclosures on the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period, in appropriate time bands. Do user constituents agree with this disclosure requirement? Do preparer constituents consider that this information is commercially sensitive? Please explain.

General response

Question 3a): Allianz supports the amendment proposed by the IASB. In our view it is a significant improvement to the standard to include the investment-return service and investment-related service when allocating the CSM. The amendment reflects the services that insurance companies provide to the policyholder properly and ensures consistency with IFRS 15. However, we are aware of certain life insurance or annuity contracts with investment activities that do not fulfil the definition of the investment-return service as currently proposed in the ED, because the contract cannot be transferred or surrendered. We consider that the contracts with or without the possibility to transfer or surrender are economically very similar. Therefore, we believe that the definition of the investment-return service shall be amended in a way so that such contracts could also fulfil the criteria of investment-return service.

Question 3b): We agree with the proposed amendment including the requirement to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service. In our view, the amendment provides a more appropriate profit pattern.

However, the reflection of investment services for the CSM release for insurance contracts with direct participation features should not be restricted to investment-related service. In practice there are certain insurance contracts with direct participation features containing non-participating features. The entity may provide investment-return service as specified in B119B to the policyholder relating to these non-participating features. Strict reading of the proposed definition would mean that the VFA contracts cannot provide investment-return services. Consequently, these services cannot be taken into account in the coverage units for the CSM amortization. Therefore, we recommend to clarify that the insurance contracts with direct participation features may provide both investment-related service and investment-return service.

Please refer to Appendix 3 for further information.

Question 3c): We do not oppose the proposed disclosure requirements.

Further topic related to CSM release

Paragraph B137 of IFRS 17 requires that the CSM must be “locked-in” at interim reporting giving rise to different CSMs at different levels of consolidations due to differences in external reporting

frequency between group and subsidiary entities. This increases significantly the operational complexity in the production of financial statements in a group, with hardly any additional benefits. Therefore, we would recommend an amendment to IFRS 17 to include an option to allow an annual “year-to-date” approach to be taken in the calculation of the CSM, irrespective of the frequency of reporting.

Question 4 - Reinsurance contracts held—recovery of losses on underlying insurance contracts

Question 4 - Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90)

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

- (a) the loss recognised on the group of underlying insurance contracts; and
- (b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not?

EFRAG’s response

EFRAG welcomes the proposals of the IASB aiming to reduce the accounting mismatches for reinsurance contracts held.

Question to Constituents

45 For proportionate reinsurance contracts, please provide fact patterns that are not captured by the amendment but for which the solution proposed by the IASB would be relevant.

46 The IASB has not addressed non-proportionate reinsurance contracts. A peculiarity of such contracts is that there is no one-to-one relationship between the direct underlying contract and the reinsurance contract held, for example because there are many underlying contracts that are covered by a single excess loss reinsurance contract held. Addressing non-proportionate reinsurance may therefore require the need to identify a “link” between the reinsured risk and the underlying contracts. EFRAG understands that any accounting mismatch for non-proportionate contracts may, in practice, be reduced due to the impact on the risk adjustment rather than on the CSM.

47 In your view:

(a) Should non-proportionate reinsurance contracts be treated similarly to proportionate reinsurance contracts, i.e. gains in profit or loss when a loss is recognised on underlying contracts? If yes, please provide information about (i) the prevalence of such contracts, including volumes and jurisdictions where the issue arises and (ii) the cash flow pattern of these non-proportionate reinsurance contracts.

(b) How would an accounting solution for non-proportionate reinsurance work?

General response

Use of the variable fee approach for reinsurance contracts:

From the reinsurance contracts issued within Allianz Group, a limited number of contracts would meet the criteria of insurance contracts with direct participation features. The effect of these contracts on our financial statements is not immaterial. Accounting for these contracts under the variable fee approach would better reflect their economics and reduce cost of implementation. However, par. B109 of IFRS 17 prohibits application of the variable fee approach to reinsurance contracts.

An amendment shall be made so that the variable fee approach is applied for reinsurance contracts issued that meet the eligibility criteria. We do not see the need for this restriction. Most reinsurance contracts issued will not meet the criteria. For those contracts the restriction is not needed. For the limited number of reinsurance contracts that meet the criteria of insurance contracts with direct participation features, the variable fee approach is the more appropriate accounting model.

Recovery of losses on underlying insurance contracts

We support the objective of the proposed amendment, which is based on the principle that a gain on proportionate reinsurance should be recorded in profit or loss to the extent that it (partially) offsets a loss on onerous underlying insurance contracts. Although we appreciate the straightforward approach to treat proportionate reinsurance contracts as an economically natural hedge, we nevertheless think the new definition of “proportionate” (see page 29 of ED from June 2019 – ED/2019/4) is different from the description given in BC304 of IFRS 17 (issued in May 2017).

Under the new definition, reinsurance contracts held that provide proportionate coverage under the ED would only include straightforward quota share reinsurance contracts without any limits. As soon as limits are agreed, the percentage how individual claims are shared is not identical for all underlying policies under such a reinsurance arrangement. Additionally, quota shares with limits would not fall under the new definition of the ED, although each claims is shared proportionally on a defined percentage for each underlying policy.

In our opinion the intention to overcome the accounting mismatch for onerous contracts and the compensation of loss components via reinsurance, is not fully resolved due to the narrow definition of proportionate in the ED. As the narrow definition excludes most of the commonly used types of reinsurance.

A rephrasing of the new definition in the ED could extend the scope of reinsurance contracts that provide proportionate coverage. Of course, any contracts covering risks on an aggregate/portfolio Excess of Loss basis are not covered by this definition as the sharing of losses is not contractually pre-determined for each claim but depends on the total loss amount of the portfolio in a specified timeframe.

Question 5 - Presentation in the statement of financial position**Question 5 - Presentation in the statement of financial position (paragraphs 78–79, 99, 132 and BC91–BC100)**

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

EFRAG's response

EFRAG agrees with the proposed amendments, as they would simplify processes for preparers, decreasing the costs of implementation, without significantly reducing the information available to users.

Do Constituents that are Users agree that separate balance sheet presentation (of insurance contracts that are in an asset position from those that are in a liability position) on a portfolio level rather than at group level will not significantly reduce the information available? Please explain.

General response

Allianz supports the proposed amendment to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts, rather than groups of contracts, that are assets and those that are liabilities. The amendment significantly reduces operational difficulties and implementation costs.

Additional response to EFRAG

Due to the fact that insurance contracts are typically managed at the portfolio level, presentation in the balance sheet at portfolio level is in line with the management of the business and will therefore not significantly reduce the information usefulness.

Question 6 - Applicability of the risk mitigation option**Question 6 - Applicability of the risk mitigation option (paragraphs B116 and BC101–BC109)**

The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.

Do you agree with the proposed amendment? Why or why not?

EFRAG's response

EFRAG supports the IASB proposals because it addresses an accounting mismatch that arises from using reinsurance held to mitigate financial risks.

Question to Constituents

64 EFRAG has heard that the extension of the risk mitigation option should be widened, for example, to include non-derivative instruments such as when hedging of interest rate risk is carried out using a combination of swaps, swaptions and fixed interest securities.

65 Please explain the prevalence including volumes and jurisdictions involved, of the risk mitigation strategies identified in paragraph 64 above.

General response

Allianz supports the amendment.

Question 7 - Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4**Question 7 - Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110–BC118)**

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date.

(a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

(b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Do you agree with the proposed amendment? Why or why not?

EFRAG's response

EFRAG welcomes the IASB's decision to defer the effective date of IFRS 17, but it does not have a view at this stage on the appropriate extension of the effective date of IFRS 17.

EFRAG agrees with the IASB that the effective date for IFRS 9 should continue to be aligned with the effective date of IFRS 17.

EFRAG considers that the necessary amendments to IFRS 4 Insurance Contracts extending the optional deferral of IFRS 9 need to be published as early as possible and, at the latest, before the end of June 2020 so as to enable timely endorsement within Europe before the current expiry date of 1 January 2021.

Question to Constituents

73 Do you consider that the proposed deferral of the effective date to 1 January 2022 is sufficient or would you support an additional year (i.e. 1 January 2023)?

74 Arguments in favour of accepting the proposed effective date of 1 January 2022 include:
(a) Further delaying the application of IFRS 17 beyond 2022 will be disruptive, as will increase the costs of their implementation processes; and
(b) A delay beyond 2022 may encourage entities to defer their implementation efforts rather than using the extended period to better implement the Standard.

75 Arguments in favour of further delaying the effective date to 1 January 2023 include:
(a) Some entities, mainly small and medium sized ones, often rely on third IT systems providers and so far there are no IT solutions for IFRS 17 available on the market, thereby making it difficult to meet the proposed 2022 effective date;
(b) The IASB expects to finalise the amendments by mid-2020. As a result, there will only be six months before the comparative period for IFRS 17 starts and this may be challenging for some entities; and
(c) Entities that would like to apply IFRS 17 earlier would be able to do so.

General response

Allianz supports the proposed deferral of the effective date to annual reporting periods beginning on or after 1 January 2022. We also agree to the extension of the temporary exemption from IFRS 9 to the effective date of IFRS 17 in order to avoid accounting mismatches. Conversely, we do not support a further deferral of the effective date by one more year, i.e. IFRS 17 to be effective for annual reporting periods beginning on or after 1 January 2023. Since the ongoing project implementation efforts are strongly aligned with the effective date proposed in the ED, a further deferral would inevitably create unnecessary costs. In particular, relevant IT systems would have to be sustained and maintained. Second, in our view any further deferral would not result in a globally harmonized effective date of IFRS 17, i.e. the existing diversity in the date of first application will remain either way. Further, we think that a deferral beyond the date proposed in the ED will enhance uncertainty in the project implementation for those topics that are linked to judgement and, as consequence, will lead to more discussions in the industry and increase cost for alignment with auditors. A timely finalization of the discussions and publication of the revised IFRS is of high importance to provide clarity for the ongoing implementation projects. In this context, we recommend to remove the mandatory requirement to present comparatives at transition in order to allow more time for implementation work as well as for the endorsement processes around the globe. Further, this is in line with the requirement in IFRS 9 for financial instruments. Finally, Allianz strongly supports to hold the effective date as proposed in the ED.

Question 8 - Transition modifications and reliefs**Question 8 - Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146)**

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired. Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

(b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

EFRAG's response**Transition relief for business combinations:**

EFRAG supports the IASB's proposals on transition relief for business combinations for both the modified retrospective approach and the fair value approach for practical reasons.

Transition relief for risk mitigation – transition date:

EFRAG assesses that the amendment to IFRS 17 to extend the option in paragraphs B115 to B116 of IFRS 17 is a step in the right direction.

However, EFRAG considers that retrospective application of the risk mitigation relief for contracts accounted for under the variable fee approach would provide more relevant information if entities are able to prove, using reasonable and supportable information, that a risk mitigation strategy was in place at the inception of the risk mitigation activity.

EFRAG considers that the wording in the ED is unclear as to whether retrospective application of the risk mitigation according to paragraph B115 is allowed when using reinsurance for risk mitigation purposes.

Fair value approach:

EFRAG considers that the possibility to apply the risk mitigation option of paragraph B115 from the transition date and the option to apply the fair value approach when the entity meets the conditions for risk mitigation in paragraph C5A of the ED are a step in the right direction. However, if the IASB accepts EFRAG's suggestion to allow retrospective application of the risk mitigation in paragraph B115, these two options are no longer necessary.

Question to Constituents

94 Do Constituents agree with the approach suggested by EFRAG, i.e. to prefer retrospective application of paragraph B115 instead of supporting the two consequential amendments? Please explain why.

95 If you expect to apply the risk mitigation retrospectively under the approach proposed by EFRAG, how would you find the required evidence in practice? What would be the starting point for collecting the evidence and what process would you use?

General response**Question 8a****Business combinations**

Allianz supports the proposed amendments. However, we do not agree with the rationale of the amendment that only refers to reduction of operational complexity. We have strong concerns relating to the impact from business combinations on financial statements and we think showing revenue from loss reserves acquired in a business combination is conceptually flawed. We thus strongly believe that the amendment should be applicable irrespective of the transition approach applied instead of being limited to the modified retrospective approach and fair value approach. In addition, we believe that a corresponding change should be made for business combinations after transition.

The treatment of incurred claims as a liability for remaining coverage (LRC) after the acquisition date would reduce comparability with other portfolios existing pre-acquisition as well as comparability with peers and distort well-established KPIs that addressees of financial information ask for (e.g., combined ratio). Given the frequently significant settlement time of insurance claims, the impact on the financial statements would maintain over many years.

From an economic perspective, there is no real “contract” behind the insurance coverage for adverse development. It is questionable who is receiving this insurance coverage. From the perspective of the original policyholder, the underlying insured event does not change. As a result of treating liability for incurred claims (LIC) as liability for remaining coverage after the business combination, insurance revenue would be generated without transferring insurance coverage to the original policyholder. Therefore, we believe that the character of the claims in payment at the acquisition date should stay as it is before the acquisition, i.e. they should be treated as LIC instead of LRC.

From an operational perspective, CSM and revenue would need to be determined for loss reserves, which is not foreseen in current systems/processes. This would introduce significant complexity. For some companies, it may require the capability to measure insurance contracts using the general model only if a future business combination takes place. Further, there were some business combinations among P&C insurance companies in recent years, which have solely short-duration contracts that are eligible for the premium allocation approach. At transition, the acquiring group can generally apply the full retrospective approach. As the proposed transition relief is not applicable for the full retrospective approach, the acquiring group would have to treat the claims incurred before the business combination date as a liability for remaining coverage, failing to apply the premium approach and therefore would need to set up the system capable for the general model. This increases significantly the operational complexity and the implementation costs.

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Therefore, a further amendment to treat the incurred claims as liability for incurred claims for the business combinations going forward as well as for the business combinations before transition for full retrospective approach is needed. Such an amendment in IFRS 17 would increase comparability and the relevance of the financial information.

Please refer to Example 1 in Appendix 4 for an illustrative example.

OCI mismatches at transition for underlying items measured at amortised costs

The modified retrospective approach for insurance contracts with direct participation features allows the simplification to determine the cumulative amount of insurance finance income or expenses recognized in other comprehensive income at transition as equal to the cumulative amount recognized in OCI on the underlying items. This modification provides reasonable results for the cases when the underlying items are measured at fair value in the balance sheet (i.e., FVOCI or FVPL).

However, for underlying items, which the entity holds, that are measured at amortised cost, the modification would produce an inconsistency in equity going forward:

- Would the entity be able to apply the full retrospective approach, these unrealized gains or losses from the underlying items measured at amortised costs would have been recognized in the OCI: The change in the fair value of the underlying item reflecting the unrealized gain needs to be reflected in the measurement of the LRC. Since there is no investment result in profit or loss, the change in reserve would be recognized in OCI. In a future period, when these assets are sold, the realization of the unrealized gain or losses on the assets will be recognized in the profit or loss. As required in B134, in this period these realized gain or losses will have to be mirrored into the insurance finance income or expenses (i.e., recycle the amount recognized in OCI into profit or loss). As a result, after the underlying item is derecognized, the accumulated OCI from this investment from both asset and liability side is zero.
- Under the modification, at transition the liability OCI is set equal to the asset OCI, which means that the unrealized gain or losses on the underlying items at amortised costs will not be mirrored to the liability OCI. The unrealized gains would thus be reflected in retained earnings at transition. When these assets are sold in the future, the realization of the unrealized gain or losses on the assets will be recognized in the profit or loss. As required in B134, in this period these realized gain or losses will have to be mirrored into the insurance finance income or expenses. This requires a counter entry in OCI from insurance liabilities. However, there is nothing to recycle in OCI from this investment (as the unrealized gain has been recognized in retained earnings at transition). As a result, after the underlying item is derecognized, there would be a permanent amount remaining in accumulated OCI from this investment.

This could be avoided by an amendment to C18(b) (ii) and C19(b) (iv) so that the cumulative OCI at transition is determined as equal to the cumulative amount recognized in the OCI on the underlying items plus the unrealized gain or losses on the underlying items measured at amortised costs.

From an operational perspective, these amounts could be easily determined. The carrying amounts for the amortized cost assets reflected in the balance sheet are readily available. The unrealized

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gains/fair values for these assets are part of the change in fair value of underlying items, which is required as input for the cash flow projection of the insurance liabilities and thus are also readily available.

The outcome would be much closer to the OCI under full retrospective application. It thus better meets the objective of the modified retrospective approach to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort.

Modified retrospective approach:

We believe that the modifications currently permitted under the modified retrospective approach, as set out in paragraphs C9 to C19 of IFRS 17, are too restrictive and a strict interpretation would unduly restrict the use of modified retrospective approach in practice. If the modified retrospective approach is not improved, insurers may be forced to use the fair value approach, even where reasonable approximations other than the modifications permitted in the standard would be possible for many portfolios. Whilst the fair value approach is a helpful practical expedient in some cases, it may not provide an appropriate profit recognition pattern in all cases, depending on the final interpretation of the fair value.

We believe that the modified retrospective approach should be more principle-based. The prescribed modifications shall be considered as non-exhaustive examples with a more general principle to allow reasonable approximations to be made. This change would retain the objective of the modified retrospective approach but allow greater flexibility for insurers to apply it based on the extent of retrospective data that are available. This would allow entities to make more use of the retrospective transition approaches which may rather improve the comparability amongst insurers than the current default to the fair value approach.

Question 8b and 8c:

Although we would prefer to allow a retrospective application of the risk mitigation approach, we believe that the proposed amendments to apply the risk mitigation option (prospectively) from the transition date instead of the effective date and to allow the application of the fair value approach to that group if it meets specified criteria relating to risk mitigation in combination provide a reasonable opening CSM balance for the relevant portfolios at Allianz and solve the issue for the comparative period. Overall, we support the proposed amendments.

Additional response to EFRAG

Impact assessments at Allianz have revealed that a retrospective determination of the CSM without retrospective application of risk mitigation could result in strong movements of the transition CSM from quarter to quarter, depending on the market developments. The result could be an unduly overstated CSM, indicating profits that economically do not exist, or a loss component although the contracts are actually profitable.

The issue can be addressed by either applying risk mitigation retrospectively, or by not retrospectively determining the CSM (i.e., using the fair value transition approach). Under either approach,

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the transition CSM will be kept clean from movements of hedged options and guarantees from prior periods.

The IASB decided to go for the second option. We intend to use the option to use the fair value transition approach in combination with risk mitigation for certain cohorts of our variable annuity business. We expect a reasonable outcome from this solution for the respective business.

Question 9 – Minor amendments**Question 9 - Minor amendments (BC147–BC163)**

This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions).

Do you agree with the Board’s proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

EFRAG’s response

EFRAG supports the IASB’s proposal.

Question to Constituents

99 Do Constituents consider that there are any unintended consequences arising from the minor amendments? Please explain.

100 EFRAG has heard two concerns which are described in the following paragraphs. B128 of the amended IFRS 17

101 Paragraph B128 of the amendments to IFRS 17 clarifies that changes in the measurement of a group of insurance contracts caused by changes in the fair value of underlying items should be treated as changes in investments and hence as changes in the time value of money and financial risk. The concern is that there would be a misclassification between insurance service result and finance result requiring the presentation of non-financial items in the financial result.

Paragraph 28 of the amendments to IFRS 17 and paragraph 22 of IFRS 17

102 Paragraph 28 of the amendments to IFRS 17 indicate that in recognising a group of insurance contracts in a reporting period an entity shall include only contracts that individually meet one of the criteria set out in paragraph 25 of the amendments to IFRS 17. That is, based on:

- (a) the beginning of the coverage period of the group of contracts;*
- (b) the date when the first payment from a policyholder in the group becomes due; and*
- (c) for a group of onerous contracts, when the group becomes onerous.*

103 However, in paragraph 22 of IFRS 17, an entity shall not include contracts issued more than one year apart in the same group.

104 Using the issue date in paragraph 25 of the amendments to IFRS 17 instead of the recognition date for the grouping would have implications on, for example, for the discount rate and could create difficulties in terms of data availability causing operational issues and undue costs.

105 If you agree with either of the above two issues, please explain why this is an issue for you and the prevalence of the issue, including volumes and jurisdictions where the issue arises?

General response

We support the proposed amendments set out in paragraphs BC147-BC163, except for the following points:

Recognition of contracts within a group (paragraph 28 of IFRS 17, BC150)

We support the minor amendment to paragraph 28. However, we strongly disagree with the clarification in BC150, which states that *“the intention of paragraph 22 of IFRS 17 is to refer to the time at which insurance contracts are issued, rather than recognized. Therefore, the Board is not proposing to amend paragraph 22 of IFRS 17”*.

In our view, the objectives of the annual cohorts requirements, i.e. to appropriately depict trends in an entity’s profit over time; to recognize profits of contracts over the duration of those contracts, and timely recognition of losses from onerous contracts, are met for both concepts (i.e. issue date or recognition date). However, to build up a group of contracts and therefore track them based on the issue date would require a data base which is not available in most systems so far. An implementation of the "issued" approach would require significant change to the current systems and unduly disrupt the implementation projects.

We also believe that it is conceptually more appropriate to align the date for the grouping with the recognition date than with the issue date. Grouping a contract that is not yet recognized into an established annual cohort would rather be confusing. To keep the date for the grouping consistent with the recognition date fits better to the way of how the entity manages its business. For example, for motor insurance, the tariff 2019 would be completely in one annual cohort, not divided in different groups because of different issue dates.

Overall, we believe that the requirement to use the issue date for the annual cohorts requirements would require substantial additional implementation costs which outweigh significantly any benefits the IASB might see.

Therefore, we propose to remove the last sentence in BC150. If a clarification were deemed necessary, in our view, using the recognition date instead of the issue date for the annual cohort would better reflect the way how the insurance companies manage their business and therefore we propose to amend IFRS 17.22 as follows:

IFRS 17.22 “An entity shall not include contracts **initially recognized, i.e. that meet one of the criteria set out in paragraph 25, issued** more than one year apart in the same group.”

Treatment of changes in underlying items (paragraph B128 of IFRS 17, BC161)

The amendment to paragraph B128(c) requires to recognize the changes in the measurement of a group of insurance contracts caused by changes in underlying items as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk.

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We disagree with the proposed amendment, which only provide reasonable presentation when all underlying items are financial items. A change in cash flows from participation in non-financial items, e.g. the risk result, is not related to the financial results and therefore, we believe these changes in underlying items should not be treated as changes in investments. Showing all changes in underlying items in financial result, as proposed in B128(c) would heavily distort the presentation of the different sources from which the profits are generated.

We understood that the IASB intends to resolve an accounting mismatch for contracts with policyholder participation in non-financial underlying items accounted for under the general model. We support this intention. However, a solution to this issue should be more targeted and not create significant mismatches in P&L presentation.

Furthermore, as the proposed amendment is a general requirement which also applies to the contracts accounted for under the variable fee approach, it is questionable, how it works together with the “book yield approach”. Para. B134 requires to include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items relating to insurance finance income or expenses, resulting in the net of the two separately presented items being nil. This requirement would be violated if showing all of the changes in underlying items including the non-financial items in insurance financial results. Keeping the net investment result at zero, however, would either require recognizing the adjustment in insurance service result (which is not possible based on our understanding of the amendment) or would result in a recognition in OCI which distort the net income

Please refer to Example 2 in Appendix 4 for an illustrative example.

Excluding changes relating to the time value of money and assumptions that relate to financial risk from changes in the carrying amount of the contractual service margin (paragraph B96(c) of IFRS 17, BC157)

The amendment to paragraph B96(c) proposes to not adjust the contractual service margin under the general measurement model for any differences between investment components expected to become payable in the current period and the actual investment component, if those differences arise from changes in fulfilment cash flows due to the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk.

From a conceptual perspective, we generally support the minor amendment. However, the amendment implies a segregation of any unexpected investment component payments into a part which is due to a change in financial variables, and a part which is due to a change in non-financial variables. We believe, from an operational perspective, the determination of the actual investment component is already very complex and the segregation of the two effects will further increase the operational complexity.

We would rarely expect any material effects in practice, as for products that do not qualify for the VFA, significant changes in the surrender value/investment component due to changes in financial assumptions during the year are generally unlikely to occur.

The unexpected repayment of investment component which is due to a change in financial variables is not adjusting the CSM, but remains in the statement of financial performance. However, the amendment does not explicitly state whether to present it in the insurance service result or insurance finance result. We propose to clarify that it should be presented as part of the insurance finance result (as it is triggered by a change in fulfilment cash flows due to a change in financial variables). This will avoid mismatches in the presentation of the profit sources in the income statement.

Please refer to Example 3 in Appendix 4 for an illustrative example.

Level of aggregation for the variable fee approach eligibility criteria (paragraph B107b(ii))

The proposed amendment to paragraph B107 b (ii) has changed the wording from “over the duration of the group of insurance contracts” to “over the duration of the insurance contract”. Neither the revised Basis for Conclusions, nor any other document explains why this change has been made.

We are concerned that this proposed amendment could be interpreted as to assess the eligibility for the variable fee approach on individual contract level, which is inconsistent with other principles of the standard: The unit of account for the CSM is the group of contracts and it is thus not possible to have a general model and variable fee approach in parallel within one group of contracts. However, the contract grouping has to be conducted before the assessment of the measurement model. As a consequence, the assessment has to be conducted for the entire group of contracts.

We currently assume that the eligibility test for the variable fee approach is performed at the level of the group of contracts based on paragraph 24 of IFRS 17, which states that recognition and measurement should be performed at this level. If the proposed amendment to B107 b(ii) were meant to require the VFA test to be carried out at the contract level rather than the group of contracts, this would be a major change to our interpretation and create an inconsistency within the Standard.

Amendment to IFRS 3 Business Combinations (Appendix D of the Exposure Draft, BC162)

In addition to the treatment of the incurred claims in business combinations as noted in Question 8, we do not concur with the requirement to re-assess the classification of acquired contracts on the business combination date, rather than retaining the classification made at inception. This would represent a further operational challenge. Especially if the new subsidiary includes contracts that change in nature during their life, applying current requirements will result in significantly different accounting treatments between the group and subsidiary financial statements. This increase significantly unnecessary complexity and costs. Therefore, we propose to not require the acquiring group to reassess the classification of acquired contracts in the course of the business combinations, but can retain the classification at contract inception.

Definition of an investment component (Appendix A of the Exposure Draft, BC156)

In our view, the proposed amendment to the definition of an investment component is unhelpful. The standard could be read in some cases even contracts with explicit account balances do not contain investment components, which is not in line with the outcome of the TRG meeting in April 2019. It is our understanding that one of the conclusion from the TRG discussion on this topic is that as long as the contracts include cash surrender value and/or account or unit balances, we can assume that an investment component exists in these contracts. However, this outcome from the TRG discussion is not fully reflected in BC156. We recommend to include this clarification into the Basis for Conclusion.

Definition of LIC/LRC definitions (Appendix A of the Exposure Draft, Defined Terms)

The additional language (provision b) added to the definition of liability for incurred claims and liability for remaining coverage is difficult to understand. In our view, the added provision is appropriate for the LRC definition, but is not appropriate or necessary for LIC. In fact, it appears to be contradictory with provision (a) of the LRC definition. We are concerned that the language included for LIC means that if an investment-return or investment-related service is no longer provided but have yet to incur an insurance claim (e.g. a policyholder elects a life-contingent annuitization), it may be required to classify the obligation as LIC and write off the CSM. This is clearly not appropriate in this example, as insurance coverage is still being provided to the policyholder.

One thought is to reword provision (b) of the LIC definition to read: pay amounts under existing insurance contracts that are not included in (a) for which an entity no longer provides an investment-return service or an investment-related service, but for which insured events have already occurred. But we believe that this is redundant, as such amounts would have already been included in LIC provision (a), and so our suggestion would be to remove paragraph (b) of the LIC definition.

Experience adjustments for premium receipts in P&L vs. CSM – (Paragraphs 106(iv) and B124(d); conflict with B96(a) of the Exposure Draft?)

The proposed amendments indicate that “experience adjustment for premium receipts” should be presented as insurance revenue, but this appears to be in conflict with IFRS 17.B96(a), which indicates that “experience adjustments arising from premium received in the period that relate to future service” should adjust CSM. In case the proposed amendments refer to “experience adjustments for premium receipts that relate to current or past service” we would suggest to clarify.

Technical correction to VFA Illustrative Examples (not in the Exposure Draft)

Illustrative Example paragraphs 112(e) and 185(b) make reference to paragraph 87(c) in support of why an entity recognizes changes in the fair value of underlying items as insurance finance income or expenses. However, section (c) of Paragraph 87 is specific to loss component requirements. As such, the reference in the IE.112(e) and IE.185(b) should be corrected (likely to just paragraph 87 in general, or paragraph 87(a) and (b), if that is what the IASB intended).

Question 10 – Terminology**Question 10 - Terminology**

This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments in this Exposure Draft. In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace ‘coverage’ with ‘service’ in the terms ‘coverage units’, ‘coverage period’ and ‘liability for remaining coverage’.

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If that change is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively, throughout IFRS 17.
Would you find this change in terminology helpful? Why or why not?

EFRAG’s response

EFRAG agrees with the IASB making consequential changes in terminology as the CSM allocation now reflects services provided rather than being limited to insurance coverage.

Question to Constituents

110 Do Constituents consider that there may be any unintended consequences arising from the proposed change in terminology? Please explain.

General response

Although we understand the rationale for such changes, we are concerned that the changes would be widespread throughout the standard which might be rather disruptive at this late stage of the implementation projects, as the educational material and any further documents would need to be adjusted. Further, the proposed change in terminology might cause unintended consequences.

However, we have identified two specific areas where the changed definition of coverage period and insurance contract service should be considered:

Contract boundaries

In February 2018, the TRG discussed how to interpret paragraph 34 of IFRS 17 for the determination of contract boundaries. The outcome was that the reassessment of risks should very much focus on insurance risk and take the perspective of the policyholder. This left us puzzled how to deal with a 5-year host investment contract (with a non-repriceable asset management fee) where policyholders can select annually renewable (and re-priceable) riders that are considered as one contract:

- Only focusing on the re-pricing of insurance risk would result in a 1-year contract boundary
- Focusing on the ability to re-price all services under the contract would result in a 5-year contract boundary

This discussion took place before the re-deliberations of the reflection of investment service in the coverage period and for CSM release. The 5-year contract boundary is in line with the new definition of insurance contract service and coverage period.

We recommend to the IASB to clarify that para. 34 also refers to re-pricing of investment related or investment return service.

Date of initial recognition of the investment contracts with discretionary participation features

Paragraph 71 of IFRS 17 specifies that for investment with discretionary participation features (DPF) “the date of initial recognition (see paragraphs 25 and 28) is the date the entity becomes party to the contract.” It is our understanding that the reason for the deviation of the initial recognition

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date for an investment contracts with DPF from paragraph 25, as the standard was developed, was that these contracts do not have a “coverage period” based on the original definition. Given the fact that the proposed amended definition of the coverage period refers to insurance contract services, i.e. including also investment-return services and investment-related services, we believe that a different recognition date for an investment contract with DPF from the default cases is not necessary. Therefore, we recommend to delete paragraph 71(a).

Appendix 2 – Other comments arising from topics in EFRAG’s September 2018 letter to the IASB that have not been addressed by the ED

Topic 1 – Annual cohorts

EFRAG’s view

EFRAG agrees with the IASB’s reporting objectives of the level of aggregation requirements in IFRS 17: depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses from onerous contracts.

EFRAG acknowledges that the annual cohort requirement is a trade-off between tracking individual contracts and ensuring the recognition of onerous contracts even where there are contracts with similar risks but different levels of profitability. Nonetheless, EFRAG considers that the requirement leads to unnecessary cost in some fact patterns, in particular for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts.

EFRAG therefore believes that it is worth re-considering whether in certain cases the annual cohorts requirement is justified for such contracts. EFRAG recommends that the IASB consider developing an exception for such contracts, starting from paragraph BC138; the exception should be reflective of the reporting objectives of the level of aggregation requirements in IFRS 17.

Question to Constituents

140 For contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts:

(a) EFRAG is suggesting to the IASB to provide an exception to the requirement to restrict the grouping of contracts using the annual cohorts. Would Constituents agree with this proposal? Please explain why or why not.

(b) Please provide fact patterns - and their prevalence - for which the application of the annual cohorts requirement results in added complexity that is not justified and, as a consequence, should be captured in such an exception. For example:

(i) Contracts to which the VFA applies compared to other contracts;

(ii) Contracts with full sharing of risks compared to other contracts that only share a substantial or significant part of the risks;

(iii) Contracts that share all risks or only particular risk types; and

(iv) Contracts with sharing of asset returns of underlying pools compared to other contracts.

141 As reported in paragraph 129, the exception should meet the reporting objectives of IFRS 17 (i.e. depicting profit trends over time, recognising profits of contracts over the duration of those contracts and timely recognising losses onerous contracts).

With reference to the pattern of recognition of the CSM, EFRAG in its case study received mixed results as to whether the resulting information would be impacted by the removal of the annual cohorts.

In your opinion, how would you ensure that the CSM release pattern would be in line with the IFRS 17 stated objectives? Do you envisage any loss of information as contemplated by the IASB in paragraph BC177 of the ED? If so, how would you address that loss of information?

142 Are there other types of contracts in the life insurance business, other than the contracts with cash flows that affect or are affected by cash flows to policyholders, that create similar complexity?

143 Some have observed that when a grouping approach broader than annual cohorts is applied, there is a benefit in providing additional information about trends in profitability. Such disclosure could include:

(a) Reconciliations for the CSM of those groups from the opening to the closing balances (according to paragraph 101 of IFRS 17)

(b) Disclosure on profitability trends by presenting the CSM effect of new business joining the groups, extracted from (a), as a series of historical data (for example, the last 3 years);

(c) Disclosure of the actuarial techniques applied for computing the CSM effect of new business joining the group as well as disclosure about the method used for assessing the profitability referred in (b).

Would Constituents consider it appropriate to include these additional disclosures?

Response to EFRAG

Allianz supports EFRAG's suggestion to the IASB to provide an exception from the requirement to restrict the grouping of contracts to annual cohorts. The Allianz business is not managed on an annual cohort basis. That is, measuring insurance contracts using groups that are inconsistent with the way the contracts are managed and regulated will not provide useful information.

As set out in the CFO Forum "IFRS 17 Priorities" document, which was discussed with EFRAG and the IASB, we believe that as a minimum IFRS 17 should include an exception to the requirement to restrict the grouping of contracts using annual cohorts for mutualised portfolios measured using the variable fee approach.

In addition, we believe that relief from the use of annual cohorts is needed for in-force business in transition, under all transition approaches. This proposed amendment would result in a significant reduction in the cost and effort of completing IFRS 17 transition using a retrospective approach.

Using annual cohorts for contracts with significant intergenerational risk sharing is not useful and requires implementing accounting processes which are not aligned with the economics of the business. Just after having been issued, a new contract (to the extent that it is not onerous) is part of the mutualisation and the initial information provided by the individual CSM becomes non-pertinent: there is only a mutualised CSM for the total portfolio including the newly added products. Once a policyholder has joined a mutualised population, the margin contributed by this contract is linked to the mutualised portfolio and not to the sole contract. When policyholders accept to share significant risks, a contract does not become onerous (for the insurer) unless the mutualisation among policyholders is not sufficient to cover the risks. There is no onerous contract in a mutualised population except if the whole population becomes onerous. In most cases in many jurisdictions these contracts are eligible to apply the VFA.

In an intergenerational mutualised portfolio, the mandatory allocation of the CSM to annual cohorts under IFRS 17 requires discretion from the insurer and consequently does not necessarily better reflect the performance or the profitability of each cohort. In practice, profitability would be assessed at a mutualised level and then allocated to cohorts so that providing information at cohort level is purely artificial. We therefore do not concur with a view that removing such information would lead to a loss of useful information.

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With regard to the need for transparency about trends in profitability, we note that such information is already provided by the combination of the existing requirements to disclose the amount of CSM contributed by new business and to disclose movements in the CSM balance for in-force portfolios.

Topic 2 – Transition: Modified retrospective approach and fair value approach**EFRAG's view**

EFRAG is aware that the modified retrospective approach and the fair value approach are two different measurement bases resulting in different outcomes that are not comparable, with the modified retrospective being the approach that aims to approximate the full retrospective approach which applies the most useful information.

EFRAG acknowledges the IASB decision not to allow further modifications to the modified retrospective approach, as this would further reduce comparability. However, in order to address the implementation challenges and prevent that a strict interpretation unduly restricts the use of retrospective approaches, EFRAG recommends that the IASB acknowledges in the main text of the final standard that the use of estimates is allowed, including those needed to approximate the missing information.

EFRAG also suggests that the IASB clarify that the 'reasonable and supportable information' criterion is not intended to change the judgement ordinarily required in IAS 8 to make estimates.

Question to Constituents

155 Please provide specific prevalent fact patterns where the application of the modified retrospective approach is proving particularly challenging in practice. This would assist EFRAG in understanding better the interpretation difficulties arising in obtaining reasonable and supportable information and in estimating missing information that is required to apply the modified retrospective approach.

Response to EFRAG

We support the comments made by EFRAG.

We believe that the modifications currently permitted under the modified retrospective approach, as set out in paragraphs C9 to C19 of IFRS 17, are too restrictive and a strict interpretation would unduly restrict the use of the modified retrospective approach in practice. If the modified retrospective approach is not improved, insurers may be forced to use the fair value approach, even where reasonable approximations other than the modifications permitted in the standard would be possible for many portfolios. Whilst the fair value approach is a helpful practical expedient in some cases, it may not provide an appropriate profit recognition pattern in all cases, depending on the final interpretation of the concept.

We believe the modified retrospective approach should be more principle-based. The prescribed modifications shall be considered as non-exhaustive examples with a more general principle to allow reasonable approximations to be made. This change would retain the objective of the modified retrospective approach but allow greater flexibility for insurers to apply it based on the extent of retrospective data

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that are available. This would allow entities to make more use of the retrospective transition approaches which may rather improve the comparability amongst insurers than the current default to the fair value approach.

Appendix 3 – Further topics that arise after the IASB re-deliberations and had not been considered in the past

1. VFA mechanic issue – Unlocking of CSM for the changes in non-underlying cash flows

In the course of implementation we identified an issue on the accounting of certain contracts containing non-participating features under the variable fee approach. The issue arises when applying the variable fee approach to non-plain vanilla real-world products. It thus only emerged in more mature IFRS 17 implementation projects in the last months. Subsequently we discovered that the issue is a widespread issue for a sizeable volume of insurance contracts throughout the world, e.g. in the U.S. or Asia.

Fact pattern

The issue arises for contracts that meet the VFA eligibility criteria in IFRS 17.B101, but which also contain certain non-participating features. The cash flows arising from these features are not covered by underlying items. The range of affected insurance contracts include:

- Variable annuities with a participating accumulation phase covered by underlying items and a non-participating annuity phase not covered by underlying items.¹
- Variable annuities with GMxB or guarantees that are **not covered by underlying items**.
- Certain unit-linked contracts with non-participating risk riders, for which the unbundling of the components are not permitted.

Main accounting issue

For such insurance contracts which qualify for the variable fee approach at inception (i.e. direct participating business), but which contain a material amount of cash flows which are non-participating and not covered by underlying items, application of paragraph B113(b) results in an accounting mismatch:

- B113(b) requires adjusting the CSM for changes and the effect of the time value of money arising from those non-participating cash flows.
- In the examples above, the corresponding assets backing the liabilities covering the non-participating features are non-underlying items. The investment result from the general account investments backing the non-participating future cash flows does not adjust the CSM, but remains in profit or loss based on IFRS 9.
- As a result, the interest accretion on the liabilities covering the non-participating features step by step erodes the CSM, while at the same time the insurance finance result is overstated. This will result in an unusually quick consumption of CSM. Consequently, the CSM might be eaten up rapidly, giving rise to a loss component, although economically the contract is not onerous.
- Please note that the issue does not arise where liabilities covering the non-participating features

¹ Fact patterns above qualify for the VFA based on an assessment against the criteria in IFRS 17.B101 at inception, even though there is a non-trivial part of future cash flows which does not vary based on changes in the underlying item. For example, at the time of eligibility assessment the non-variable annuity pay-out phase of the variable annuity may have had less weight compared to the variable cash flows in the participating accumulation phase.

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are backed by assets that are underlying items, such as for minimum interest rate guarantees in participating contracts: As the assets are underlying items, their returns adjust the CSM.

We understand and acknowledge that any solution to this issue might be difficult to develop. However, we consider a solution to this issue an absolute necessity in order to obtain a consistent, reasonable accounting framework for such insurance contracts that have been described in the fact pattern. Applying the current requirements would result in significant accounting mismatches in profit and loss.

The accounting issue presented above is not just a theoretical issue, but it is a material “real-world” problem affecting a multitude of common insurance contracts in different jurisdictions (applying not only to the Allianz insurance contract portfolio, but generally to all relevant markets selling those kinds of products).

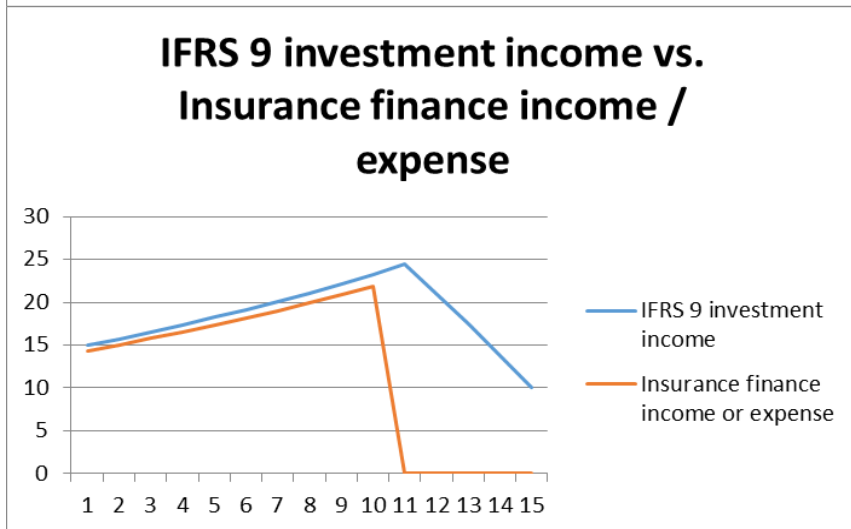
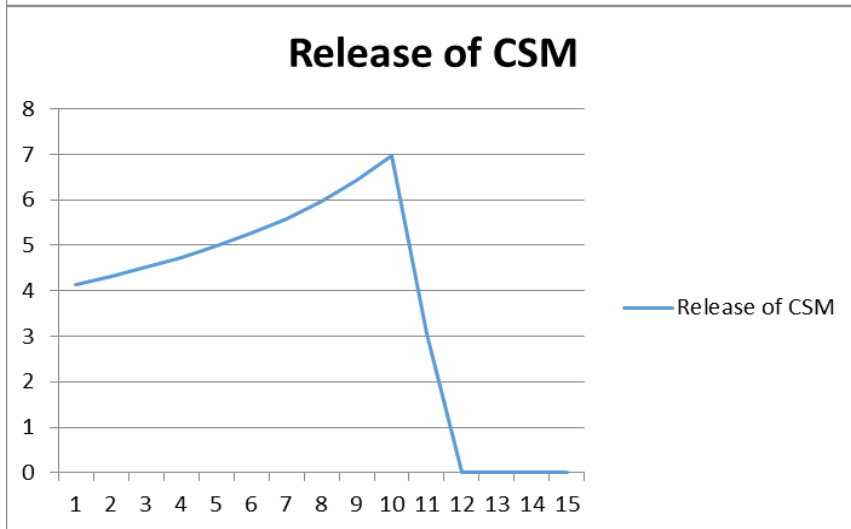
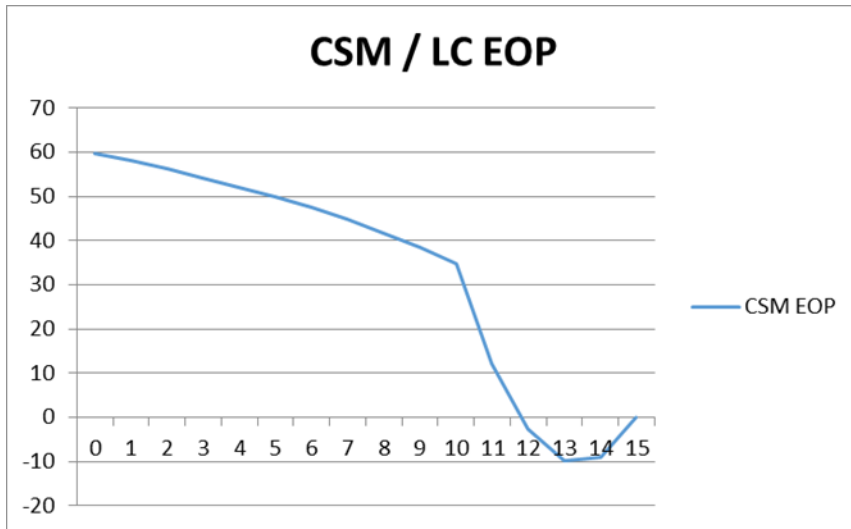
Illustrative example on the results of the accounting mismatch

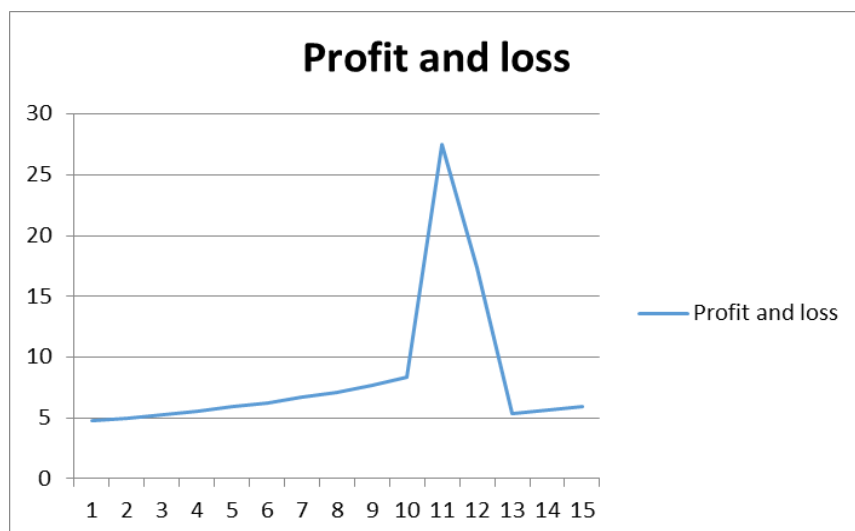
We provide an illustrative example which shows the consequences of the accounting mismatch described above based on the following fact pattern:

- Consider a direct participating contract (determined at inception of the contract), i.e. we apply the VFA measurement model
- Assume a participating accumulation phase (assets in a separate account) with subsequent non-participating annuity pay-out phase (assets on general account)
- We assume the annuitization of the accumulated amount in the separate account (paid out equally over the fixed pay-out phase). The annuity phase is assumed to be within the contract boundary
- The policyholder does not participate in any investment result during annuity phase
- As a simplification we only assume mortality during annuity phase
- As a simplification we assume no minimum annuity, just the pay-out of the accumulated amount
- Investment strategy during pay-out phase: cash flow matching of expected annuitization pay-outs; the remainder is invested in variable interest bonds

The current wording of the Standard implies:

- CSM in annuity phase is unlocked for changes in time value of money not arising from underlying items
- IFRS 9 investment result on non-underlying bonds is recognized directly in P/L and does not unlock the CSM
- Changes in time value of money unlocking CSM comprise of the interest accretion and the level change





Further topics related to the VFA mechanic issue

We would like to note that the proposed definition of the insurance contract services in Appendix A may have unintended consequences. From our reading of the proposed definition, the insurance contracts with direct participation features can only provide investment-related service, which is specified as the management of underlying items on behalf of the policyholder.

As demonstrated above, there are certain insurance contracts with direct participation features containing non-participating features. The cash flows arising from these features are not covered by underlying items. However, the entity still provide investment-return service as specified in B119B to the policyholder. Strict reading of the proposed definition would mean that the VFA contracts cannot provide investment-return services. Consequently, these services cannot be taken into account in the coverage units for the CSM amortization. We believe, this consequence is not intended when the proposed amendments are discussed in the course of the IASB deliberation process. This would also contradict proposed amendments regarding the contractual service margin attributable to investment-return service and investment-related service as stated in Question 3. Therefore, we recommend to clarify that the insurance contracts with direct participation features may provide both investment-related service and investment-return service.

2. Recommendation for clarification due to interpretation uncertainty

In course of the implementation of IFRS 17, we have exchanges with other insurance companies as well as accountancy firms. We recognize that for the following topics, divergent interpretation may exist. We recommend to IASB to clarify.

a. Re-classification of OCI

We identified a potential accounting mismatch in equity for contracts accounted for under the variable fee approach resulting from investments in equities accounted for under FVOCI:

- The accounting policy choice in paragraph 89(b) is chosen; therefore the insurance finance income or expense in the period is disaggregated to include in profit and loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held.
- The accounting policy choice in paragraph B5.7.1. in IFRS 9 for respective FVOCI underlying items is chosen; therefore the amounts presented in OCI will not be subsequently transferred to profit and loss, but the cumulative gain or loss will be transferred within equity.

Implication:

As referred in IFRS 9 B5.7.1 (Gains and losses, regarding investments FVOCI) ...” Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.” We believe reclassifying the cumulative gain or loss at disposal from accumulated OCI to retained earnings provides better information because it ensures that ultimately all gains or losses from the investment are presented in retained earnings and no amounts remain in accumulated OCI after the investment has been derecognized.

Where such FVOCI investments are underlying items, the fair value changes in the investments (underlying items) are reflected in the insurance liability OCI. Paragraph B134 of IFRS 17 provides clear guidance for direct participating contracts which amounts to include in profit or loss. In particular the insurance liability OCI reflecting the cumulative gain or loss shall not be reclassified or reflected in to profit or loss at any time. Furthermore, paragraph 91(b) explicit prohibit recycling of liability OCI to P/L for certain cases of contract derecognition.

If the respective reclassification option from accumulated OCI to retained earnings within equity for IFRS 9 investments accounted for at FVOCI is chosen, we would like to apply a similar reclassification option to the respective liability OCI: reclassification of any remaining liability OCI from other comprehensive income to retained earnings within equity. This reclassification would mirror the corresponding reclassification in IFRS 9 and ensure that ultimately all gains or losses from the investment are presented in retained earnings and no amounts remain in accumulated OCI after the insurance contract has been derecognized.

However, the Standard does not explicitly state whether or not such a reclassification from accumulated OCI to retained earnings is permitted for IFRS 17. A reclassification is supported by the basis for conclusion for IFRS 9 on the implementation of the FVOCI accounting policy choice for investments which emphasizes the conceptual consistency in presentation between IFRS 9 investments and IFRS 17 insurance contract liabilities: BC4.148 of IFRS 9 details the initial decision of the IASB to implement the FVOCI accounting model which is partly due to concerns of accounting mismatches with insurance contracts liability accounting. A similar reasoning is brought forward in BC 44 of the Basis of Conclusion of IFRS 17.

However, we recommend to clarify in IFRS 17 that a similar reclassification option for insurance contract liabilities exists as in IFRS 9 B5.7.1 (i.e., providing the accounting policy choice to reclassify any remaining liability OCI after derecognition of the group of contracts from accumulated OCI to retained earnings within equity).

b. Treatment of LIC in contract modifications

A contract modification according to IFRS 17.72 requires de-recognition of the old, and recognition of the new, amended contract. This treatment makes sense for the LRC relating to the old contract. The Standard does not clearly prescribe how to deal with an LIC recognized on the old contract. There could be three possible interpretations:

1. The LIC remains in the group of contracts covering the old contract;
2. The LIC is transferred to the new group of contracts as a LIC; or
3. The LIC is derecognized and needs to be reflected when determining the LRC for the modified contract.

Based on our understanding, interpretation 1 is adequate. The modification relates to future service only (i.e., a new premium is charged for a new/different coverage/service). The LIC relates to past service and thus relates to revenues already earned for the old contract in the old group of contracts in prior periods. These claims are not reflected in the premiums for the modified contracts, nor do they refer to “remaining coverage” for the new/modified contract. Reflecting these claims in the LRC for the modified contract would result in a misstatement of the financials:

- Derecognizing the LIC would result in a positive run-off, without economic substance; and
- Reflecting the LIC in the fulfilment cash flows (LRC) of the new contract would impair the CSM, and potentially even result in a loss component for an economically profitable contract.

We recommend clarifying this topic.

3. Consequential amendments to IAS 16 *Property, Plant and Equipment*

The consequential amendments to IAS 16 as laid out in paragraph 29A of IAS 16 provides an option to measure some owner-occupied properties which are included in a fund or are underlying items of groups of insurance contracts with direct participation features using the fair value model.

We welcome the amendments. However, this amendment to IAS 16 is limited to the owner-occupied property. Some insurers invest in alternative assets, e.g. wind park, which are underlying items of insurance contracts with direct participation features. There is no clear guidance in IAS 16, whether such assets can be classified as owner-occupied properties. However, paragraph 5 of IAS 40 implies that property is land or a building – or part of a building – or both. Based on this, it appears difficult to classify the wind park as a whole as property. Consequently, the option provided in IAS 16.29A is not applicable to such assets. As a result, accounting mismatch will arise, because part of the underlying items of contracts accounted for under the VFA are not measured at fair value.

We recommend that the option granted in IAS 16.29A should be applicable to Property, Plant and Equipment accounted for under IAS 16 rather than limited to owner-occupied properties. Against the background that the investments in infrastructure will be noticeably increasing in the low interest environment, our recommendation would facilitate investment in infrastructure that would be beneficial for the whole economy.

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IAS 16.29A Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue groups of insurance contracts with direct participation features and hold the underlying items. Some such funds or underlying items include owner-occupied property. The entity applies IAS 16 to owner-occupied properties that are included in such a fund or are underlying items. Despite paragraph 29, the entity may elect to measure such properties using the fair value model in accordance with IAS 40. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See IFRS 17 Insurance Contracts for terms used in this paragraph that are defined in that Standard).

Appendix 4 – Illustrative examples

Question 8 – Transition modifications and reliefs

Example 1:

Business combinations - Claims incurred before an insurance contract was acquired

- Illustrative example:
 - 2-year contract
 - Single premium: 1000
 - Claim: 400 claims incurred in periods 1 and 2 – payout pattern: 0%, 50%, 50% (i.e., of the 400 incurred claims in period 1, 50% are paid out in period 2 and 50% are paid out in period 3)
 - Business combination at beginning of the second period, assuming the fair value of the LIC equal to the book value and purchase price equal to net equity of the acquired entity (i.e., no goodwill)

Year	Without business combination			
	1	2	3	Total
Balance sheet				
Investments	1000	800	400	
Total assets	1000	800	400	
Liability for remaining coverage	500	0	0	
Liability for incurred claims	400	600	200	
Equity	100	200	200	
Total liabilities and equity	1000	800	400	
Profit or loss				
Revenue	500	500	0	1000
Claims	400	400	0	800
Net income	100	100	0	200

Year	With business combination				
	1	2 (opening)	2 (closing)	3	Total
Balance sheet					
Investments	1000	1000	800	400	
Total assets	1000	1000	800	400	
Liability for remaining coverage	500	900	200	0	
Liability for incurred claims	400	0	400	200	
Equity	100	100	200	200	
Total liabilities and equity	1000	1000	800	400	
Profit or loss					
Revenue	500		700	200	1400
Claims	400		600	200	1200
Net income	100		100	0	200

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As illustrated by the examples, applying the current requirement would result in recognizing a total revenue of 1400 over the whole periods, although the consideration received from the policyholder is 1000. We believe that the recognition of revenue out of the liability for incurred claims does not reflect the economics behind the contract adequately and would rather confuse the users and impair the relevance and comparability of the financial information. Therefore, from our view, the liability for settlement of claims incurred before an insurance contracts was acquired should remain as a liability for incurred claims instead of liability for remaining coverage.

We note that in business combination the liabilities shall be recognized at fair value for the acquiring group. In case that the fair value is different from the book value of LIC at acquisition date, our proposed amendment to keep the LIC based on the fulfilment value may result in a difference to the fair value. The treatment of this difference may need to be clarified.

- Illustrative example:
 - Acquired entity
 - Liability for incurred claims (fulfilment value): 100
 - Equity: 50
 - Assets (measured at fair value): 150
 - Purchase price: 100
 - Fair value of incurred claims: 110

In the consolidated balance sheet, the LIC for the acquired insurance contracts remains at 100, as the fulfilment cash flows remain unchanged.

Considering that the fair value of the incurred claims of 110, the goodwill shall be measured at $60 = 100 - 40$ (fair value of the equity).

To depict goodwill, the difference between fair value and the fulfilment cash flow, i.e. the amount of 10, could be recognized in the consolidated balance sheet. In our view, it may be appropriate to defer it as a liability. However, we believe that the character of this deferred position is different from the CSM, as we do not think that it is adequate to generate revenue from the incurred claims acquired in a business combination. Therefore, we do not think the guidance on the subsequent measurement for the CSM (e.g. unlocking) shall be applicable to this position. Instead, we suggest to amortise this deferred liability on a systematic basis into profit or loss, similar to the amortization of acquisition related intangible assets. This amortization should be presented outside the insurance service result. Presenting the amortization as either revenue or claims would distort the underwriting result and corresponding KPIs such as the combined ratio and loss ratio, again requiring adjustments to those figures in communication with investors.

Question 9 – Minor amendments

Example 2:

Treatment of changes in underlying items (paragraph B128 of IFRS 17, BC161)

- Illustrative example:
 - Policyholder participates in 50% of investment result, 50% of expense result, 50% of insurance result
 - Expected claim: 100
 - Actual claim: 150
 - Investment income: 60
 - Interest accretion on insurance liabilities: 30
 - Other cash flows and the discounting effect ignored for simplification

1) Under BBA

50% of the experience variance on claims (i.e., 25) will reduce future payments to policyholders. With the proposed amendments, these changes in dividend cash flows are treated as changes in financial assumptions. They are therefore recognized in the investment result. The experience variance itself, however, is part of the insurance service result. As a result, the presentation of the sources from which the profits are generated is heavily distorted:

BBA – IASB amendment	
Insurance service result:	
- CSM release	10
- Expected claims	100
- Actual claims	-150
	-40
Investment result:	
- Investment income	60
- Insurance finance expenses	-30
- Change in financial risk (from changes in dividend cash flows due to changes in expected claims)	25
	55
Net income	15

From our perspective, the changes in dividend cash flows due to changes in expected claims do not represent an investment result. Therefore, the presentation of the insurance service result as well as investment result is distorted. We consider the following presentation as more appropriate:

BBA – Allianz view	
Insurance service result:	
- Release of CSM	10
- Expected claims	100
- Actual claims	-150
- Change in risk results (from changes in dividend cash flows due to changes in expected claims)	25
	-15
Investment result:	
- Investment income	60
- Insurance finance expenses	-30
	30
Net income	15

2) Under VFA

Since the proposed amendment refers to general requirement for the presentation as insurance finance income or expenses, it would also have the following consequences for the variable fee approach.

Under VFA, the experience adjustments have an impact on the fulfilment cash flows and the CSM through the variable fee to the entity. The experience adjustments are therefore eliminated from the P/L results: The shareholder share adjusts the CSM (and is then partially reflected in the release of CSM for the period), the policyholder share is reflected in the present value of future cash flows. Before the amendments, we had interpreted the Standard such that the experience adjustments should be eliminated from the insurance service result. The investment result overall is zero due to application of the “book yield”. Please note that the CSM release is different than under BBA, because the whole model works differently. One should not directly compare the numbers for BBA and VFA.

The proposed amendment requires however to recognize the changes in underlying items in the investment result. The experience variance itself, however, is part of the insurance service result. As a result, the presentation of the sources from which the profits are generated is distorted.

Further, it is questionable, how it works together with the “book yield approach”. The requirement set out in para. B134 would be violated in the example below. Keeping the net investment result at zero, however, would either require recognizing the adjustment in insurance service result (as presented in Allianz view but which is not possible based on our understanding of the amendment) or would result in a recognition in OCI which distort the net income.

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VFA – IASB amendment	
Insurance service result:	
- Release of CSM	30
- Expected claims	100
- Actual claims	-150
	-20
Investment result:	
- Investment income	60
- Insurance finance expenses	-60
- Change in financial risk (from changes in dividend cash flows due to changes in expected claims)	50
	50
Net income	30

VFA – Allianz view	
Insurance service result:	
- Release of CSM	30
- Expected claims	100
- Actual claims	-150
- Changes in underlying items (from changes in dividend cash flows due to changes in expected claims)	50
	30
Investment result:	
- Investment income	60
- Insurance finance expenses	-60
	0
Net income	30

Example 3:

Excluding changes relating to the time value of money and assumptions that relate to financial risk from changes in the carrying amount of the contractual service margin (paragraph B96(c) of IFRS 17, BC157)

- **Illustrative example:**

- The Cash surrender value in the current period denotes the non-distinct investment component

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- The cash surrender value is given by the policyholder account balance without any surrender charges
- The policyholder account balance is invested in fixed income investments with variable interest payments
- The CSM release for the current period shall be 40. This is based on the assumption of 5 remaining coverage units and we assume no interest accretion. Therefore the CSM beginning of period is 200

1) Unexpected re-payment of investment component due to unexpected increase in surrenders in the current periods

Consider that in the current period the amount of lapse payments to the policyholder increase due to an increase in policyholders surrendering their contract (compared to expected), e.g. we have initially assumed that 2 policyholders lapse in the current period with a cash surrender value = account balance of 50 each; now 3 policyholders lapse with a total cash surrender value = account balance of 150:

- Investment income remains unchanged (at 70)
- The actual paid investment component increases to 150 (compared to 100 as expected) in the current period as more policyholders surrender and receive their respective account balance
- Interest accretion remain unchanged as it is determined based on beginning of period fulfilment cash flow
- CSM release decreases since B96(c) requires to adjust the CSM for the difference between the expected amount of investment component to become payable in the current period and the actual amount that becomes payables, if this difference is not arising from changes in financial variables (in our example here the difference is due to more policyholder lapsing in the current period, therefore related to changes in non-financial variables). Thus, the CSM beginning of period of 200 is adjusted by -50 to 150 and 30 is released in the current period due to 5 remaining coverage units.

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BBA – pre-payment of investment component	
Insurance service result:	
- Release of CSM	30
- Expected lapse payments	100
- of which expected investment component	-100
- Actual lapse payments	-150
- of which actual paid investment component	150
	30
Investment result:	
- Investment income	70
- Insurance finance expenses	-60
	10
Net income	40

- 2) Unexpected re-payment of investment component due to unexpected increase in cash surrender value due to an increase in investment returns in the current period

Consider that in the current period the amount of lapse payments to the policyholder increase due to an increase in interest rate which increase the policyholder account balance in the current period

- Investment income increases from 70 to 130 in the current period
- Due to the increase in account balance the actual paid investment component increases from 100 (as expected) to 150 in the current period
- Interest accretion remain unchanged as it is determined based on beginning of period fulfilment cash flow
- CSM release remains unchanged due to the amended B96(c) (the difference between the amount of investment component that is expected to become payable in the current period and the actually paid amount of investment component is not considered an unexpected re-payment of investment component as the difference relates to changes in financial variables)
- The question remains where to present the effect of 50 as the difference between the expected and actual investment component

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Allianz view – Presentation in insurance finance result	
Insurance service result:	
- Release of CSM	40
- Expected lapse payments	100
- of which expected investment component	-100
- Actual lapse payments	-150
- of which actual paid investment component	150
	40
Investment result:	
- Investment income	130
- Insurance finance expenses	-60
- Insurance finance expense (unexpected re-payment of investment component due to changes in financial variables)	-50
	20
Net income	60

Presentation in insurance service result	
Insurance service result:	
- Release of CSM	40
- Expected lapse payments	100
- of which expected investment component	-100
- Actual lapse payments	-150
- of which actual paid investment component	150
- Unexpected re-payment of investment component due to changes in financial variables (not adjusting the CSM)	-50
	-10
Investment result:	
- Investment income	130
- Insurance finance expenses	-60
	70
Net income	60

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Changes in fulfilment cash flows arising from changes in financial variables do not adjust the contractual service margin in the general measurement model. There may be instances in which the amount of non-distinct investment component expected to become payable in the current period, or the actual investment component that becomes payable in the period depend on changes in financial variables (e.g. value increase of the cash surrender value due to an account balance increase to increased asset performance in the current period), and do not in fact relate to a pre-payment of investment component (e.g. due to an increased amount of policyholders lapsing in the current period, compared to initially expected). Such a difference between the expected amount of investment component to become payable in the current period and the actual amount to become payable shall not adjust the contractual service margin in alignment to the requirements of the general measurement model. Therefore, we support the minor amendment made in B96(c).

However, we recommend a further amendment to clarify on the presentational issue discussed above: if the respective difference between the amount of investment component expected to become payable in the current period and the actual amount of investment component to become payable in the period is presented as insurance service result, examples above clearly demonstrate that this will distort the presentation of the profits between the insurance service results and insurance financial results. The illustrative example above shows that it might result in a negative underwriting result, even though all changes relate to changes in financial variables and economically there is no negative underwriting result. Thus we support the view to present the effect as insurance finance income or expense.