

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## **Decision Document - User Outreaches**

### **IFRS 17 *Insurance Contracts***

#### **Objective**

- 1 The objective of this paper is to assess whether the user outreaches conducted by EFRAG in 2018 and 2019 should be updated.

#### **Background**

- 2 The EFRAG Secretariat conducted user outreaches as a supporting tool for developing the endorsement advice on IFRS 17 *Insurance Contracts* (IFRS 17).
- 3 EFRAG conducted two user outreaches at different stages. The first user outreach was conducted during April through May 2018 after the issuance of IFRS 17 in May 2017 (2018 outreach<sup>1</sup>). The second outreach was conducted in August and in the first week of September 2019 after the issuance of ED/2019/4 *Amendments to IFRS 17* (ED) in May 2019 (2019 outreach<sup>2</sup>).

#### **EFRAG Secretariat analysis**

- 4 The EFRAG Secretariat is of the view that sufficient information has been obtained from users to support the drafting of the endorsement advice for the following reasons:
  - (a) In combining both outreaches, users have been consulted about the major elements of the standard as amended. The following topics were included in the consultation:
    - (i) Transition;
    - (ii) Reinsurance;
    - (iii) Annual cohorts;
    - (iv) Separate balance sheet presentation of (re)insurance contracts that are in an asset position from those that are in a liability position;
    - (v) Non-separation of receivables and payables;
    - (vi) Acquisition cash flows;
    - (vii) Volatility;
    - (viii) Comparability; and
    - (ix) Costs and benefits.

---

<sup>1</sup> A high-level summary of the outreach can be found in Appendix I.

<sup>2</sup> A high-level summary of the outreach can be found in Appendix II.

- (b) The 38 users consulted (in the combined user outreach) represents users from a diverse background as can be seen in the diagram in Appendix III.
- (c) As noted in paragraphs 11 and 18 of Appendix I, the following concerns have been raised by users in the 2018 outreach:

Concern	EFRAG Secretariat view
<p>The mismatch between reinsurance and underlying insurance contracts was not considered helpful and the net of the two would be preferred. Reinsurance and insurance are not considered separate businesses, and the net effect is considered.</p>	<p>In the ED the proposals of the IASB was aiming to reduce the accounting mismatches for reinsurance contracts held by allowing entities to 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.</p> <p>Therefore, the EFRAG Secretariat assesses that the concern has somewhat been addressed. However, consistent with EFRAG’s response in its comment letter to the IASB, the EFRAG Secretariat notes that the proposed text for the definition of ‘proportionate’ in the ED should be revisited and reconsidered for inclusion of other types of reinsurance contracts based on the economic substance of those contracts.</p>
<p>The existence of an additional framework in addition to Solvency II was seen as a challenge.</p> <p>IFRS 17 should be changed to require line of business reporting similar to that in Solvency II.</p>	<p>The EFRAG Secretariat notes the concern raised but assessed that the objective of Solvency II (which is more capital focused) is different to those of IFRS 17.</p> <p>In addition, the EFRAG Secretariat have heard that users currently use the financial statements as one of the sources of information and that additional sources of information are currently being used to value insurance companies.</p>
<p>Many specialist and generalist users were uncomfortable with the range of transition approaches offered by IFRS 17 and that it would cause comparability concerns</p>	<p>The EFRAG Secretariat notes that various transition approaches is inherent to the adoption of a new standard in order to assist preparers of financial statements due to the impracticability of finding historical information.</p>
<p>Other concerns raised by specialist users included concerns about the impact of IFRS 17 on the business models, the information they would (or would not) get from insurance companies and whether IFRS 17 would help in understanding cash generation.</p>	<p>As noted above, the EFRAG Secretariat have heard that users currently use the financial statements as one of the sources of information and that additional sources of information such as a wide range of key performance indicators are currently being used.</p>

- (d) The 2019 outreach was developed as a response to the amendments made to IFRS 17 in the ED. With regards to whether the views of users are still consistent in relation to the 2018 outreach, there were two topics discussed in 2018 outreach which were carried forward:

- (i) *Reinsurance* – Users considered that the amendments in the ED are an improvement but still excludes a large part of reinsurance contracts and this could still result in undesirable outcomes; and
  - (ii) *Transition* – Users were still concerned about comparability in applying the different transition approaches and elaborated their concern with regards to the application of the modified retrospective approach.
- (e) Although the 2019 outreach focused on the ED it also incorporated other important issues (such as annual cohorts and non-separation of receivables and payables) raised by EFRAG in their comment letter to the IASB<sup>3</sup>.

**Question for EFRAG Board**

- 5 Does EFRAG Board agree that the user outreaches conducted are enough to assist with the drafting of the endorsement advice? If not, please indicate on which items the combined user outreach is insufficient today.

---

<sup>3</sup> EFRAG's comment letter to the IASB can be found [here](#).

## Appendix I (Executive summary of the 2018 user outreach)

- 1 Feedback were received from 31 users. The types of users interviewed were mostly buy side and sell side analysts who focus on equities. Other users interviewed were bond or credit market investors/analysts, credit analysts, a researcher and private/retail investors.
- 2 The users focus on a range of different insurance businesses, e.g. life, non-life, reinsurance, multi-line and also asset management.
- 3 In this user outreach, the following topics were covered:

### *Current accounting*

- 4 Regarding the analysis and valuation of insurance companies currently, there are a wide range of sources of information and metrics being used by both specialist and generalist users. The generalist users undertake their valuations more frequently than the specialist users.
- 5 Specialist and generalist users indicated the current application of IFRS 4 *Insurance Contracts* limits comparability between insurance companies. As a result, users need to rely on alternative measures and/or to adapt the figures in the financial statements.

### *Information under IFRS 17*

#### *Comparability*

- 6 Most specialist and generalist users are expecting an improvement in comparability between insurance entities for various reasons. Users appreciated that there would be only one framework applicable across countries and that they would benefit from the enhanced disclosures. A few users that expected an improvement in comparability also thought IFRS 17 did not go far enough in building a uniform reporting framework.
- 7 A minority of users were not convinced that IFRS 17 would improve comparability. Those that raised comparability concerns provided examples of the source of their concerns, especially lack of comparability such as the need to apply judgement, the standard being principle-based for some aspects and the availability of options.

#### *Presentation and disclosure*

- 8 Specialist users found the requirement to split the presentation between underwriting and investing activities, in the statement of comprehensive income, would provide useful information.
- 9 Also, both specialist and generalist users indicated the importance and usefulness of disclosures under IFRS 17.

#### *Volatility*

- 10 Most of the specialist and generalist users did not see volatility as a problem as long as it reflects real economic substance and the underlying causes were communicated clearly. One user stated that volatility is seen by users as an opportunity to learn more about the capabilities of the management in steering their company. Also, specialist users indicated that they can adjust their figures for volatility.

#### *Transition*

- 11 Many specialist and generalist users were uncomfortable with the range of transition approaches offered by IFRS 17 and that it would cause comparability concerns. It is feared that these will create confusion. Further, specialist users note the possibility of window dressing, e.g. double counting of profits, at transition.

*Expected impact on cost of capital/investability of insurance sector*

- 12 A majority of the specialist and generalist users expect the cost of capital to decrease or not to change while a minority expects an increase. Some specialist users considered that an initial rise in the cost of capital of the industry as a whole is expected due to the need for all market participants to adapt to the new approach. Subsequently, a decrease in the cost of capital was expected.
- 13 Also, it was noted that the decrease in cost of capital would not be for all insurance companies. With the benefit of more detailed information about the insurance business, the cost of capital for some insurance companies might rise. Some indicated that the investability of the insurance sector was expected to increase while others thought that even though IFRS 17 will improve accounting, IFRS 17 may not necessarily make it more accessible for generalists.

*Expected costs of IFRS 17*

- 14 Both specialist and generalist users expected their costs to be minor, and the costs to be made were rather seen as an investment. A few specialist users expected material or significant costs.

*Benefits of IFRS 17*

- 15 The users interviewed ranged from still developing their IFRS 17 knowledge to being knowledgeable; the specialist users being more knowledgeable than the generalist users.
- 16 Both generalist and specialist users saw benefits to IFRS 17. For example, the identification of onerous contracts, profit earned as services are provided, disclosure of the assumptions used and measurement being closer to Solvency II.

*Costs versus Benefits of IFRS 17*

- 17 A majority of specialist and generalist users anticipated greater expected benefits compared to expected costs.

*Concerns with IFRS 17*

- 18 Some specialist users raised concerns about the treatment of reinsurance. Other concerns raised by specialist users included concerns about the impact of IFRS 17 on the business models, the information they would (or would not) get from insurance companies and whether IFRS 17 would help in understanding cash generation. Also, the existence of an additional framework in addition to Solvency II was seen as a challenge.

## Appendix II (Executive summary of the 2019 user outreach)

- 1 Following the issuance of the ED, the EFRAG Secretariat conducted another user outreach and interviewed seven users during August and in the first week of September 2019. The types of users interviewed were mostly buy and sell-side analysts who focus on equities. Another user interviewed was a credit rating analyst.
- 2 The seven users focus on a range of different insurance businesses, e.g. life, nonlife, reinsurance, multi-line and also asset management.
- 3 Six of the seven users interviewed were specialist users, whilst the remaining user interviewed was considered a generalist.
- 4 Most of the users were well or reasonably aware of the amendments to IFRS 17.
- 5 The outreach aimed at obtaining user views mainly on the following four topics:  
*Annual cohorts*
- 6 Some users considered that the results of the mutualised business should be at a level of aggregation that is aligned with how management manages the business. However, almost all users indicated that the annual cohort requirement was not needed for the mutualised business. However, some users would like to have additional information if the annual cohort requirement is removed for the mutualised business.
- 7 Some users favoured the IASB proposals of having the annual cohort requirement.  
*Separate balance sheet presentation of (re)insurance contracts that are in an asset position from those that are in a liability position*
- 8 Most users agreed with EFRAG's draft response that supports the IASB proposal for the separate balance sheet presentation of (re)insurance contracts that are in an asset position from those that are in a liability position on a portfolio rather than a group level. The remaining minority preferred group level rather than portfolio level.  
*Deferral of effective date of IFRS 17 and IFRS 9*
- 9 Users were indifferent and had no strong view on the effective date.
- 10 Two users considered that the alignment of effective dates of IFRS 9 *Financial Instruments* and IFRS 17 for insurers is important. However, one was concerned if IFRS 9 were to be delayed for more than one year.  
*Non-separation of receivables and payables.*
- 11 Of the users that responded to the question, the majority agreed with the EFRAG draft response for the reasons set out in EFRAG's draft comment letter and it not being an area of focus for them, e.g. not going to have a big impact on estimates when building models for forecasts. One user expressed concerns about less balance sheet information, whilst another asked for separate presentation of receivables and payables.
- 12 Apart from the topics above, the following other areas were also raised as a concern by users:
  - (a) Transition;
  - (b) Reinsurance; and
  - (c) Acquisition cash flows.

### Appendix III (User profile of combined outreaches)

- 1 The table below presents the number of users interviewed by location based on expected investing activities and respective type of user.

**Table 1: Number of respondents by location based on expected investing activities and type of user**

<i>Respondent by location based on expected investing activities:</i>		<i>Respondent by type of user<sup>4</sup>:</i>	
<b>Specialist users:</b>			
Global	11	Buy side analyst:	
France	6	• Equities	6
Germany	4	• Bond or credit market	1
UK	3	• Equity and bonds	2
Norway	1	• Portfolio manager	2
Denmark	1	Sell side analyst: Equities	13
Italy	3	Credit analysts/Rating agency	5
Netherlands	1	Researcher	1
	<b>30</b>		<b>30</b>
<b>Generalist users:</b>			
Global	2	Buy side analyst: Equities	3
Europe	2	Sell side analyst: Equities	3
Hungary	1	Private/Retail investors	1
Belgium	1	EFRAG User Panel	1
Italy	2		
	<b>8</b>		<b>8</b>

<sup>4</sup> These were the categories specified by the participants in the interviews.