Amendments to IFRS 17 *Insurance Contracts*
User Outreach Report 2019

Introduction

1 As part of the consultation on EFRAG's draft comment letter issued on 15th July 2019 commenting on the proposed amendments to IFRS 17, EFRAG sent out a public call for users to be interviewed and also emails were sent out to investors and analysts drawing their attention to the public call.

2 As a result, the EFRAG Secretariat conducted seven interviews with users during August and in the first week of September 2019.

3 This User Outreach report summarises the feedback received during the user outreach activities from seven users.

User outreach activities

What we did

4 EFRAG consulted a number of European investor and analyst users of financial statements through telephone/webcast meetings. The outreach aimed at obtaining user views mainly on the following four topics:

(a) Annual cohorts;

(b) Separate balance sheet presentation of (re)insurance contracts that are in an asset position from those that are in a liability position;

(c) Deferral of effective date of IFRS 17 and IFRS 9; and

(d) Non-separation of receivables and payables.

General information on the users

5 The types of users interviewed were mostly buy and sell-side analysts who focus on equities. Another user interviewed was a credit rating analyst.

6 The seven users focus on a range of different insurance businesses, e.g. life, non-life, reinsurance, multi-line and also asset management.

7 Six of the seven users interviewed were specialist users, whilst the remaining user interviewed was considered a generalist.

8 Most of the users were well or reasonably aware of the amendments to IFRS 17.

Detailed analysis

10 The table below presents the number of respondents 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

Respondent by location based on expected investing activities:		***Respondent by type of user[1]:***	
Specialist users:			
Global	4	Buy side analyst:	
Europe and UK	1	• Equities	1
Italy	1	• Equities and bonds	1
		Sell side analyst - Equities	3
		Credit rating analyst	1
	6		**6**
Generalist users:			
Netherlands	1	Buy side analyst: Equities	1
	1		**1**

11 The names of the individual users and their respective organisations have been treated on a confidential basis.

Detailed feedback

Annual cohorts

12 Note that the term ‘mutualised business’ explained to the users was as described in EFRAG’s draft comment letter.

13 Three 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.

14 Jurisdictions mentioned where the mutualised business was considered to be important were France, Germany and Italy (”gestioni separate”).

15 Five users indicated that the annual cohort requirement was not needed for the mutualised business for the following reasons:

(a) One user indicated that with the annual cohort requirement, it would be difficult to understand the business. There would be volatility created, due to accounting mismatches, thus creating a cost to the business. This may result in an increase in price of the products and so the cost would be borne by the policyholders;

(b) Two users indicated that the annual cohort requirement may result in changes to product offering because, with low interest rates, some companies would not be able to guarantee the same yield to the policyholders; this was also considered a concern because of the role of these products in the allocation of savings;

[1] These were the categories specified by the participants in the interviews.

(c) Another user stated that the annual cohort requirement was artificial. The figures should reflect the economics. This user was interested to see the profitability as a whole and also in terms of how mutualisation works and not one year in isolation as he would not know how to interpret each year cohort profit nor was he sure what the KPIs would be;

(d) This user added that insurers change their products based on macro-economic environment, policyholder needs, some profitability criteria, etc. However, if accounting would influence the economics of the business then that would be a step too much;

(e) The annual cohort requirement would add significant work for companies without being useful; and

(f) The point of mutualisation is to smooth returns for policyholders.

16 Of these users, one user specified that the exemption of annual cohorts should be for the variable fee approach.

17 Two users favoured the IASB proposals for the following reasons:

(a) One of these users stated that as a general statement, insurance companies should know each individual contract in the same way that investors need to know each of their investments. The annual cohort requirement is lenient towards preparers because there is no full assessment at individual contract level;

(b) This user indicated that for the mutualised business, the annual cohort requirement would give a picture about how the business is run, how customers are treated, and which customers are benefitting the most. He indicated that if there are excessive transfers, then they would need to find out the reason. In the Netherlands, there was a debate about transfer of wealth and there would be a risk if the wealth transfer is excessive;

(c) This user added that there is currently no real accounting standard and IFRS 17 should be implemented without further delays; and

(d) The other user highlighted that over time profitability can change and so he preferred the granular information.

18 One user had no preference about the annual cohort as their analysis would not be as detailed. He also noted that this is because they have access to additional information to the financial statements.

19 Three users would like to have the following additional information if the annual cohort requirement is removed for the mutualised business:

(a) One user wants information on the crediting rate, policyholder buffers, profitability, sustainability of the business and the risk for shareholders. This user noted that annual cohort information is an artificial calculation and would not provide this information. The user indicated that similar disclosure exists already for some entities in the current accounting approach, from statutory requirements;

(b) Information on duration of assets and liabilities for each product in order to better estimate future profits (one user);

(c) Non-GAAP information to understand how the business is working in an economic way (one user).

Separate balance sheet presentation of (re)insurance contracts that are in an asset position from those that are in a liability position

20 Five users agreed with the EFRAG draft response for the following reasons:

(a) It is not used for their analysis and would not change the valuation of these companies (one user);

(b) The separation of reinsurance held compared to insurance issued is far more important (one user);

(c) There needed to be a balance between too much information and lack of detail. Preparers could give more information if they wanted to (one user);

(d) One of these users preferred group level but he would not oppose portfolio level as he wanted IFRS 17 to be implemented before a new financial crisis starts.

21 One of these users preferred presentation of portfolios consistent with lines of business because this would make reconciliation with Solvency II easier. They estimate profit based on lines of business.

22 Two users preferred group level rather than portfolio level for the following reasons:

(a) A rating agency considered group level to be important information given their focus on the balance sheet and the use of a risk-based capital model requires a charge for these items. However, as a credit rating agency they can ask for more information but would prefer for this to be consistent, i.e. in the financial statements;

(b) Another user preferred to use information with more data.

Deferral of effective date of IFRS 17 and IFRS 9

23 Two users considered that the alignment of effective dates of IFRS 9 and IFRS 17 for insurers is important. However, one was concerned if IFRS 9 were to be delayed for more than one year.

24 These two users also prefer a one-year delay only but with the caveat only if this is realistic for the industry and expressed concerns that further delays would result in higher costs. One of these users was also concerned whether the amendments would result in the best version of the standard possible rather than a rushed sub-standard version.

25 One user preferred a delay of maximum one year because there is a systemic risk that if the stock markets would go down, investors would not be able to trust insurance companies and would not be able to distinguish between good and bad insurers due to the current accounting. He added that banks had to go through the implementation of IFRS 9. This user preferred a hasty implementation that pressures preparers rather than a late implementation which would impact the investors and clients.

26 Three users had no strong view on the effective date but they had the following comments:

(a) One user was concerned that one-year may not be sufficient for all insurers but admitted that others may not wish a further delay;

(b) The other user wanted better information as a result of IFRS 17.

(i) He added that in financial analysts were concerned to postpone IFRS 17 because this would cause a postponement of IFRS 9. In search for yield, there may be an increase in holding of low-quality assets and they were concerned that if there would be a financial crisis, there would be an issue on these assets being still under IAS 39;

(ii) If IFRS 17 would be postponed by two years, he would want disclosures about investments in assets with low ratings. He mentioned that in during the financial crisis, in the IFRS financial statements, it was difficult to know if companies were investing in risky assets such as Greek bonds.

(c) Another user indicated that the IASB should make all the relevant decisions first and then consider the effective date.

27 Another considered that this is a topic of discussion with preparers as to their readiness for the effective date.

Non-separation of receivables and payables

28 Three users agreed with the EFRAG draft response for the reasons set out in the DCL 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.

29 One user expressed concerns about less balance sheet information as expressed in paragraph 22 above.

30 One user asked for separate presentation of receivables and payables. He indicated that for some companies in their specific jurisdiction that have health business, 20% or more are premiums receivables so he needed to consider counterparty risk. He added that it was more important for companies that have a few business lines. He added that he wanted to know about the premiums expected but not yet paid as receivable amounts.

31 One user did not have a view while another user was indifferent because he did not use that information.

Other areas of concern

32 Users were asked to discuss any other areas of concern and/or interest during the interviews and the following topics were covered.

Transition

33 Two users expressed concerns that:

(a) A strict application of the modified retrospective approach may mean that more preparers will have to use the fair value approach on transition. This would have knock-on implications for future profitability that could have consequences on the valuation of companies;

(b) It is unclear how transition is managed and therefore when the numbers will normalise going forward;

34 One user indicated that he preferred the use of only one transition approach and not three. He added that he appreciated the point on the use of estimates when there is not enough information available.

Reinsurance

35 Three users expressed concerns:

(a) that the amendments are an improvement but still excludes a large part of reinsurance contracts and this could still result in undesirable outcomes; (one user);

(b) that the voluntary disclosures of preparers for sharing of losses may not distinguish between excess of loss and quota share contracts (one user);

(c) about different terminology being used, i.e. proportionate versus proportional (one user).

Acquisition cash flows

36 One user was concerned about the inclusion of anticipated contract renewals of contracts in the model as it is contrary to the normal principles of accounting even though it would mean the numbers are more stable year on year. The EFRAG

Secretariat mentioned that the concept was introduced by IFRS 15 *Revenue from Contracts with Customers*.

Other comments

37 One user commented that the ability of the insurance industry to act as an investor was not impaired by the accounting requirements, but rather by Solvency II. In his view, capital requirements on government bonds are too low and capital requirements on equity investments are too high. Therefore, creating distortion on the insurer's ability to invest in equity instruments.

38 Another user highlighted that he wanted further disclosures and more granular information on the risk adjustment, CSM, onerous contracts and discount rate.