Limited update on Case Study IFRS 17 Implementation impacts

Introduction

1 EFRAG's extensive case study on IFRS 17 *Insurance Contracts* as issued, was conducted between December 2017 and June 2018 and EFRAG's simplified case study between February and May 2018. This was done in order to understand the expected impact of IFRS 17.

2 Subsequently, the IASB, in June 2019, issued the Exposure Draft ED/2019/4 *Amendments to IFRS 17* ('ED').

3 This update to the EFRAG case study aims to assess to which extent the Amendments to IFRS 17 have reduced the concerns raised in relation to IFRS 17 as issued.

4 The IASB will re-deliberate a number of issues raised by constituents on the ED between December 2019 and February 2020.

5 The first release of the questionnaire (January 2020) is based on IFRS 17 as amended reflecting the re-deliberations by the IASB known at the date of release.

Timeline

6 The reason for issuing the questionnaire before knowing the final outcome of the IASB ongoing re-deliberations sits in the need to make the participants fully aware of the detailed data needed to respond to the final questionnaire. The timeline for responding to the update of the case study is intrinsically related to the work of the IASB. Hence, hypothetically, if the deliberations of the IASB would ask more time than currently scheduled, also the timeline of this update to the case study will be adjusted.

7 The EFRAG Secretariat expects that entities define their approach to the responses before receiving the last update of the questionnaire. The purpose of the two progressive releases of the revised questionnaire in March and April is to allow to the entities to update their approach to the responses reflecting the tentative decisions of the IASB.

8 The overall timeline for completion of the case study is as follows:

(a) Issue date: xx January 2020;

(b) xx March update for re-deliberations of the IASB; and

(c) xx April 2020: submission date for all topics except costs and benefits;

(d) mid May 2020: submission date for costs and benefits.

EFRAG Secretariat availability

9 This case study has been developed by the EFRAG Secretariat as a supporting tool for developing the endorsement advice on IFRS 17 *Insurance Contracts as amended*. The EFRAG Secretariat remains available during the consultation period to respond to questions about applying the case study approach through email or conference call. The EFRAG Secretariat insurance team can be contacted through email (IFRS17Secretariat@efrag.org) or by phone as follows:

Didier Andries	+32 (0)2 207 93 71
Fredré Ferreira	+32 (0)2 207 93 73
Sapna Heeralall	+32 (0)2 207 93 74
Joachim Jacobs	+32 (0)2 207 93 75

The limited update on case study

Introduction

10 This limited updated case study is open to all interested participants and is not limited to only those who performed the extensive and simplified case studies.

11 This updated case study relies on the same product categories as the original case studies. These product categories are:

(a) Life and health contracts with direct participation features (includes with-profit contracts);

(b) Life and health contracts with direct participation features;

(c) Non-life contracts;

(d) Investment contracts with discretionary participation features;

(e) Unit-linked contracts (to be accounted for in IFRS 17);

(f) Reinsurance ceded; and

(g) Reinsurance assumed.

12 A description of these product categories is included in Appendix 1.

13 For those who participated in the extensive and simplified case studies, in contrast to those original case studies, there is no need to select particular portfolios to be tested. Instead, the purpose is to assess the impact of the Amendments to IFRS 17 in a holistic way on the entire business of the participant.

Scope of the updated case study

14 This limited updated case study takes into account all the IASB decisions till December 2019. For the remaining topics where decisions are yet to be taken, the EFRAG Secretariat has assumed the tentative position as per the IASB's ED.

15 As and when the IASB continues to make their decisions on the Amendments, after the issuance of this updated case study, the EFRAG Secretariat may issue updated questions on specific topics or additional topics (where needed).

16 The intention is that by the submission date, the responses to the limited updated case study would have taken into consideration all the IASB decisions on the Amendments to IFRS 17.

Guidance

17 All responses denominated in currency should be in Euros.

18 Reference to 'IFRS 17 as amended' in this limited update to the case study means that IFRS 17 should be considered as a whole including the Amendments to IFRS 17.

19 Extent of required guidance to be discussed with EFRAG IAWG members.

Questions for EFRAG TEG

20 Do you have any comments on this limited updated case study? Please explain.

EFRAG Case Study on IFRS 17 updated for the Amendments

Introduction and general description

1 Please provide the following details:

(a) The name of the entity you are responding on behalf of:

(b) Country where head office is located:

(c) Contact details, including e-mail address:

2 Provide an overview of the main businesses and type of insurance activities which your company is involved with.

Business	Total liabilities of each product category (A) (EUR)	% of (A) compared to total insurance liabilities of the entity	Short description of the main types of insurance activities
Product category 1			
…			

3 How far advanced are you in implementing IFRS 17 as amended? For example:

- Analysis of impact in progress – started [state date] and expected to be completed by [state date]
- Implementation plan approved - [state date]
- Implementation in progress – started [state date] and expected to be completed by [state date].

Insurance acquisition cash flows (paragraphs 28A – 28D of the Amendments)

Purpose: These questions aim to understand to which extent the proposed treatment of acquisition cash flows has reduced the overall number of onerous groups of insurance contracts. It also aims to understand how important the acquisition cash flows relating to future business is, separately for each business.

4 For your business per product category:

(a) To which extent (expressed as a percentage of all onerous groups in accordance with IFRS 17 as issued) does the allocation of insurance acquisition cash flows reduce the number of onerous groups of insurance contracts;

(b) How much of the insurance acquisition cash flows are allocated to future renewals (expressed as a percentage of the total insurance acquisition cash flows incurred to date);

(c) What is the estimated duration of the renewals?

Business	Reduction in overall onerous groups (%)	% of acquisition cash flows allocated to future renewals	Estimated duration of renewals
Product category 1			
…			

Contractual service margin attributable to investment-return service and investment related service (paragraphs paragraphs 44-45, 109 and 117(c)(v) of the Amendments)

Purpose: These questions aim to understand to which extent the Amendments have aligned profit recognition with the business model and the remaining issues as well as their prevalence.

5 The answer to this question should consider the final decision of the IASB relating to contractual service margin attributable to investment return service and investment related service.

6 For your business per product category:

(a) Indicate to which extent the Amendments allow to show a CSM run-off representative of your business model (expressed as a percentage of total liabilities per product category and also as a percentage of total insurance liabilities of the entity). In doing so, differentiate between insurance contracts that are accounted for under the general model and the variable fee approach.

(b) For those insurance contracts where the Amendments do not allow you to show a CSM run-off representative of your business model, provide the following information:

(i) Importance of the business (expressed as a percentage of total product category liabilities and also as a percentage of total insurance liabilities of the entity);

(ii) Identify the elements that prohibit you from recognising an investment-return service or investment related service in accordance with IFRS 17 as amended;

(iii) Describe the service that you provide to policyholders and describe how, in your view, that service should be allocated to profit or loss.

Business	CSM run-off representative of total liabilities per product category (%)		CSM run-off representative of total insurance liabilities of entity (%)	CSM run-off **not** representative of total liabilities per product category (%)		CSM run-off **not** representative of total insurance liabilities of entity (%)
	GM (%)	VFA (%)	Volume (%)	GM (%)	VFA (%)	Volume (%)
Product category 1						
…						

Business	CSM run-off **not** representative of total insurance liabilities of entity (%)	
	Elements prohibiting profit recognition	Proposed solution

Product category 1		
…		

Reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B of the Amendments)

Purpose: This section aims to understand the remaining issues about reinsurance.

7 For your business per product category:

(a) Indicate whether onerous underlying contracts by a non-proportionate reinsurance treaty are material to you. If so, please quantify these.

(b) For non-proportionate reinsurance contracts:

(i) Provide a description of the cash flow patterns related to these contracts;

(ii) Can you quantify the remaining accounting mismatch after adapting the risk adjustment for these contracts? Is this remaining accounting mismatch material?

Applicability of the risk mitigation option (paragraph B116 of the Amendments)

Purpose: This section of the case study aims to understand the impact of the Amendments relating to the risk mitigation option.

8 For your business per product category:

(a) Indicate to which extent VFA contracts would apply the risk mitigation option as per IFRS 17 as issued (expressed as a percentage of total liabilities per product category that apply the VFA);

(b) Indicate to which extent VFA contracts would apply the risk mitigation option as per IFRS 17 *as amended* (expressed as a percentage of total liabilities per product category that apply the VFA).

Business	% applying risk mitigation option under IFRS 17 as issued	% applying risk mitigation option under IFRS 17 *as amended*
Product category 1		
…		

Transition modification and reliefs (paragraphs C3(b), C5A, C9A, C22A of the Amendments)

Purpose: This section of the case study aims to understand the impact of the Amendments relating to transition.

Transition relief for risk mitigation

Prospective application

9 Under IFRS 17 as issued, an entity would have to apply the risk mitigation option as from the date of initial application, i.e. 2021.

10 Under the IFRS 17 Amendments where a one-year delay is proposed, an entity shall apply the risk mitigation option prospectively as from the transition date of IFRS 17, i.e., one year prior to the date of initial application of 2022.

11 Considering your VFA business indicate to what extent there are remaining accounting mismatches that are due to the use of derivatives, reinsurance and financial instruments at fair value through profit or loss.

Use of fair value approach in particular circumstances

12 The Amendments propose that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts is permitted to instead apply the fair value approach to that group, if specific criteria for risk mitigation are met.(paragraph B116 of IFRS 17).

13 For your business, to which extent does application of the fair value approach to insurance liabilities where the risk mitigation option is applied resolves transition issues relating to risk mitigation?

Costs and benefits

Purpose: This section of the case study is designed to assist in understanding to which extent IFRS 17 as amended has changed the original implementation cost estimates. A separate question will relate to the final estimate of the total cost once the IASB has defined the effective date.

Costs

14 For those that participated in EFRAG's extensive and simplified case studies, please:

(a) indicate the overall total of your costs for implementing IFRS 17 as estimated in your answer to the **original** case study and your internal changes to cost estimates.

(b) Second, considering the reductions/increases of implementation costs caused by the Amendments to IFRS 17, please provide below – for each of the Amendments - whether these proposals reduce or increase the implementation cost of IFRS 17 as amended.

Type of costs	One-off costs	Ongoing costs	(Cost Savings)	Total costs
Original cost estimate				
Internal changes to cost estimates (indicate the main drivers)				
Scope exclusions				
Acquisition cash flows				
CSM run-off				
Reinsurance contracts				

Type of costs	One-off costs	Ongoing costs	(Cost Savings)	Total costs
Balance sheet presentation				
Risk mitigation				
Effective date				
Transition				
Other minor amendments and terminology				
Updated cost estimate				

15 For those that did **not** participate in EFRAG's extensive and simplified case studies, please indicate your costs for implementing IFRS 17 as amended.

Type of costs	One-off costs	Ongoing costs	(Cost Savings)[1]	Total costs
Costs for implementing IFRS 17:				
Classification of insurance contracts				
IT – Actuarial systems				
IT – Accounting and reporting systems				
Non-IT systems				
Understanding IFRS 17				
Investor relations				
Other costs (please specify)				
Costs/cost savings relating to the IFRS 17 Amendments:				
Scope exclusions				
Acquisition cash flows				
CSM run-off				
Reinsurance contracts				
Balance sheet presentation				
Risk mitigation				
Effective date				
Transition				
Other minor amendments and terminology				
Total cost estimate				

[1] For example, synergies with Solvency II.

16 Indicate how much of the total costs has been incurred to date when implementing IFRS 17.

17 In your view, is the complexity of IFRS 17 *as amended*, justified in terms of a reduction in the costs of application? Please explain.

Benefits

Purpose: This section of the case study is designed to highlight the expected benefits brought about for preparers of financial statements with the adoption of IFRS 17 as amended (i.e. as a whole rather than focussing only on the amendments). It also provides a rating in terms of agreement for each of the expected benefits.

18 For each of the benefits highlighted below please indicate, where applicable, your initial answer to the original case study on a scale from 1 (totally disagree) to 5 (fully agree) to what extent do you agree with the following statements made will be of benefit to you. Also, considering IFRS 17 *as amended*, please provide below your new assessment of each of the benefits highlighted. In addition, please explain the reasons why your initial assessment has changed, if that is the case.

19 EFRAG expects that the expected benefits highlighted in grey below are not expected to change from the responses of those that participated in EFRAG's extensive and simplified case studies. Therefore, these participants do not need to populate the expected benefits highlighted in grey unless they expect changes to their initial response.

20 The expected benefits highlighted in grey below are to be completed by those that did **not** participate in EFRAG's extensive and simplified case studies.

	IFRS 17 as issued					IFRS 17 as amended					Reason why there is a change
Expected benefits for preparers of financial statements	1	2	3	4	5	1	2	3	4	5	
More comparable financial reporting information IFRS 17 removes the practice of using non-uniform accounting policies for insurance contracts. Consequently, IFRS 17 is expected to eliminate much of the diversity in practice for insurance contracts with similar characteristics and economic features. When applying IFRS 17, a multinational entity will apply a consistent accounting model for similar insurance contracts, increasing the comparability of its results by product and by geographical area between group entities.											
Availability of options Both for contracts with and without direct participation features, IFRS 17 offers accounting policy choices for dealing with insurance finance income and expense. Entities may therefore choose the option which best reflects their economic substance and reduce costs.											
Reduced cost of capital Increased comparability of insurance entities with other industries and entities across various jurisdictions amongst											

	IFRS 17 as issued					IFRS 17 as amended					Reason why there is a change
Expected benefits for preparers of financial statements	1	2	3	4	5	1	2	3	4	5	
users of financial statements could potentially reduce the cost of capital charged by capital providers.											
Uniform Chart of Accounts By requiring a consistent accounting policy, IFRS 17 provides entities with the opportunity to align their chart of accounts throughout the group and leverage from the chart of accounts used for statutory reporting purposes. This could lead to information being available in a more timely manner and could potentially enhance the understanding of what is included in the chart of accounts.											
Resolving accounting mismatches IFRS 17 allows entities to present insurance finance income or expenses either in profit or loss or disaggregating it between other comprehensive income and profit or loss to reduce or fully eliminate accounting mismatches with the assets invested in.											
Reflecting the economics of the business IFRS 17 allows for entities to make their long-term business model more understandable which could reduce the dependence on certain non-GAAP measures currently used by entities to explain their business.											
Current accounting By using updated assumptions as required by IFRS 17, entities could have more current information at hand which could enable them to identify products that become onerous as they arise. This also includes accounting for all rights and obligations (such as options and guarantees) so that entities have information at hand of what their true financial position is at any reporting date.											
Reasonable approximation under the Premium Allocation Approach IFRS 17 allows an entity to simplify the measurement of some groups of insurance contracts by applying a premium allocation approach. This could lead to a reduction in complexity and costs of implementing the Standard.											
Specific measurement guidance IFRS 17 provides entities with more prescriptive requirements than IFRS 4 around measurement which could lead to a more uniform measurement basis when comparing liabilities between group entities.											
Enhanced integration between risk management and financial reporting IFRS 17 reflects how risk is managed by entities. This could provide an opportunity for risk management and financial reporting teams to integrate management and financial reporting, thus therefore reducing the amount of work to prepare financial and management reports.											

Purpose: These questions aim to highlight some additional benefits that are expected with the adoption of IFRS 17 as amended and provides insight into how entities will benefit from them compared to the current situation.

21 Do you consider that, compared to the current situation of applying IFRS 4:

(a) the application of IFRS 17 as amended could potentially improve the quality of financial information through its disclosure requirements? Please explain.

(b) the application of IFRS 17 as amended could lead to an increased understanding of the insurance sector by capital providers? Please explain.

(c) the application of IFRS 17 as amended could lead to possible increased attractiveness of the insurance sector to investors? Please explain.

(d) the application of IFRS 17 as amended could have a possible positive effect on the cost of capital of insurers? Please explain.

(e) the application of IFRS 17 as amended could lead to an increased understanding of the insurance sector by other stakeholders? Please explain.

Purpose: This question aims to identify any additional benefits over and above those listed above which are expected from the adoption of IFRS 17 as amended.

22 Are there any other benefits that you expect from the implementation of IFRS 17 as amended?

Overall impact of costs and benefits

Purpose: This question aims to understand the overall impact regarding costs and benefits.

23 Do you consider that the expected benefits outweigh the expected costs to implement IFRS 17 as amended? Please explain.

Appendix 1: Product categories used in this updated case study

1 Product categories used for the case study:

Life and health contracts with direct participation features (including with-profit contracts)

Life contracts:

This include term life, whole life, universal life, endowment, group business, deferred annuities, and immediate annuities.

Health contracts:

Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly. The Health products offered include critical illness and permanent health insurance products.

Some entities may include health products under Life contracts and others as part of Non-life or General Insurance. Where you select health insurance portfolios for the case study, please be clear in your description where this has been included.

Insurance contracts with direct participation features:

As defined under IFRS 17: *It is an insurance contract for which, at inception:*

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and

(c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

This may include “with-profits” or “participating” contracts depending on the contractual terms.

Life and health contracts without direct participation features

These include the same products as the previous category, but without direct participation features as described in IFRS 17.

Non-life contracts:

Also known as general insurance or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.

Investment contracts with discretionary participation features:

As defined under IFRS 17: *It is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:*

(a) that are expected to be a significant portion of the total contractual benefits;

(b) the timing or amount of which are contractually at the discretion of the issuer; and

(c) that are contractually based on:

(i) the returns on a specified pool of contracts or a specified type of contract;

(ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

(iii) the profit or loss of the entity or fund that issues the contract.

These are the contracts that may be included in the scope of IFRS 17 as the entity also issues insurance contracts per IFRS 17 paragraph 3(c). Investment contracts without DPFs fall under the scope of IFRS 9 and do not form part of the case study.

Unit-linked contracts (insurance):

Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges.

Similar to investment contracts without DPFs, investment unit-linked contracts do not form part of the case study.

Reinsurance ceded:

Contracts entered into by the entity with a reinsurer allowing the entity to hold reinsurance contracts in order to reduce its risk exposure to an insurance policy by passing that risk onto a reinsurer.

Reinsurance assumed:

Reinsurance contracts issued by the entity in which it assumes insurance risk by issuing reinsurance contracts to policyholders in its capacity of a reinsurer.

Appendix 2: Overview of Amendments to IFRS 17

Scope exclusions

1 The proposed amendments exclude loans that transfer significant insurance risk (optional) and credit cards from the scope of IFRS 17.

Expected recovery of insurance acquisition cash flows

2 The amendments to IFRS 17 propose to allocate insurance acquisition cash flows to the group of insurance contracts they relate to and to groups that include contracts that are expected to arise from renewals of the contracts in that group. These changes also introduced some new disclosure requirements.

Contractual service margin attributable to investment-return service and investment-related service

3 The amendments to IFRS 17 propose to identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service in addition to insurance coverage. Also, it is clarified 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. These changes also introduced some new disclosure requirements.

Reinsurance contracts held – recovery of losses on underlying insurance contracts

4 The amendments to IFRS 17 propose that an entity would be required to adjust the contractual service margin of a group of reinsurance contracts held that provide 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.

Presentation in the statement of financial position

5 The amendments to IFRS 17 propose that an entity present separately in the statement of financial position the carrying amounts of portfolios (instead of groups) of insurance contracts issued that are assets and those that are liabilities.

Applicability of the risk mitigation option

6 The amendments to IFRS 17 propose extending the risk mitigation option to be available when an entity mitigates financial risk on insurance contracts with direct participation features using reinsurance contracts held.

Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4

7 The amendments to IFRS 17 propose to defer the effective date of IFRS 17 by one year to 1 January 2022. In addition, it is proposed to extend the temporary exemption from IFRS 9 by one year so that it is applied as from 1 January 2022.

Transition modifications and reliefs

8 The amendments to IFRS 17 propose a change to the modified retrospective approach permitting an entity to classify liabilities for insurance contracts acquired before the transition date as a liability for incurred claims rather than a liability for remaining coverage. In addition, the amendments propose to apply the risk mitigation option as from the transition date, rather than the date of initial application. Finally, the amendment permits the application of the fair value approach for entities who use the full retrospective approach to a group of insurance contracts.

Minor amendments

9 *The IASB* proposes minor amendments to address a number of cases in which the drafting of IFRS 17 does not achieve the IASB's intended outcome. The IASB has not, and does not intend to, perform a comprehensive review of possible drafting improvements.

10 The following is a list of the minor amendments. Refer to the Basis for Conclusions of the ED paragraphs BC147 to BC163 for more details:

(a) Scope and investment contracts with discretionary participation features;

(b) Recognition of contracts within a group;

(c) Business combinations outside the scope of IFRS 3;

(d) Adjusting the loss component for changes in the risk adjustment for non-financial risk;

(e) Disclosure of investment components excluded from insurance revenue and insurance service expenses;

(f) Risk adjustment for non-financial risk in disclosure requirements;

(g) Disclosure of sensitivity analyses;

(h) Definition of an investment component;

(i) 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

(j) Changes in the risk adjustment for non-financial risk;

(k) Use of the risk mitigation option;

(l) Excluding changes from cash flows relating to loans to policyholders from revenue;

(m) Treatment of changes in underlying items;

(n) Amendment to IFRS 3 Business Combinations; and

(o) Amendment to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 32 Financial Instruments: Presentation.

Minor amendments

11 The IASB proposes to add to Appendix A of IFRS 17 the definition ‘insurance contract services’ to be consistent with other proposed amendments.

12 The IASB proposes 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’. If that change is made, those terms would become ‘service units’, ‘service period’ and ‘liability for remaining service’, respectively, throughout IFRS 17.