IFRS 17 and Small insurers
Issues Paper

Introduction and objective

1 The objective of this paper is to address, as part of the preparation of the Draft Endorsement Advice for IFRS 17, the questions of the European Parliament in respect of the interaction between IFRS 17 and Small insurers.

2 The Parliament noted the need to examine the potential effects on financial stability, competitiveness, and insurance markets, for insurance SMEs in particular, and the need for a cost-benefit analysis.

EFRAG Secretariat analysis

3 When analysing the interaction between IFRS 17 and Small insurers, it is first necessary to define what Small insurers are.

4 The EU Recommendation 2003/361/EC (“the EU Recommendation on SMEs”) includes the main factors determining when an enterprise is an SME:

(a) Staff headcount; and

(b) Either turnover or balance sheet total.

Company category	Staff headcount	Turnover	Balance sheet total
Medium-sized	< 250	≤ EUR 50 m	≤ EUR 43 m
Small	< 50	≤ EUR 10 m	≤ EUR 10 m
Micro	< 10	≤ EUR 2 m	≤ EUR 2 m

5 However, these thresholds were not specifically developed with insurers in mind. Instead, they focus on non-financial entities, and may not fully fit the financial position and performance of insurers.

6 The EFRAG Secretariat has not found any other thresholds in EU accounting legislation that could be applied to define the population of insurers in the scope of this Issues Paper.[1]

7 Therefore, the EFRAG Secretariat has looked at the Solvency II legislation, that includes, in Article 4 of the Solvency II Directive 2009-138/EC, thresholds to exempt insurers from the Solvency II regime.

[1] Research by the EFRAG Secretariat has shown that, since there is a number of insurers with only one staff member, the headcount criterion would not be suitable for the purpose of this Issues Paper.

8 Article 4 lists different quantitative thresholds, the most important ones relating to the size of the business in terms of premiums and technical provisions – annual gross written premium income lower than 5 million Euros or gross technical provisions lower than 25 million Euros.

9 According to EIOPA,[2] there were, at the end of 2018, 3,438 insurance and reinsurance undertakings (in this issues paper, together referred to as 'insurers') active in the EU, of which 573 were excluded from Solvency II because they were below the Article 4 threshold.[3] **These 573 companies are defined, in this Issues Paper, as 'Small insurers'.**

10 The EFRAG Secretariat considers it, given the size of the Small insurers, reasonable to assume that none in this group prepares consolidated financial statements. The remainder of this paper therefore focuses on the individual financial statements.

11 Appendix 1 presents, per Member State, an overview of the data relevant for this Issues Paper. It shows that, at the end of 2018, the application of IFRS in the individual financial statements of insurers is prohibited in Austria, Belgium, Denmark, France, Italy, Romania, Spain and Sweden. **The total number of Small insurers in these Member States is 328**.

12 The Appendix also shows that, at the end of 2018, IFRS is required in individual financial statements in Croatia, Cyprus, Estonia, Greece, Latvia, Lithuania, Malta, Portugal, Slovak Republic, and Slovenia. **This concerns 3 Small insurers**.[4]

13 The other Member States permit, at the end of 2018, the use of IFRS in the individual financial statements of the remaining 242 Small insurers. However, in some Member States, this permission is conditional. One prime example is Germany (with 27 Small insurers), where the application of IFRS is only allowed if these financial statements are also prepared and filed under German GAAP. The EFRAG Secretariat has been informed that, because of this condition, no German insurer applies IFRS unless required.

14 Out of the remaining 242 Small insurers, 170 are domiciled in the UK. Outreach performed by the EFRAG Secretariat has learned that none or hardly any of these Small insurers apply IFRS in their individual financial statements.

15 To test the robustness of its definition of Small insurers and present some form of sensitivity analysis, the EFRAG Secretariat has also analysed the impact of different options to increase the thresholds of Article 4 of the Solvency II Directive 2009-138/EC, included in EIOPA's Consultation Paper.

16 These options are presented in table 2 of Appendix 1. They concern increasing the threshold for premium income to, as a maximum, 10 million Euros and the threshold for technical provisions to 50 million Euros. The EFRAG Secretariat considers premium income a good proxy for turnover and technical provisions a good proxy for balance sheet total. If any of the EIOPA proposals would be accepted, these increased thresholds could, when comparing these amounts with

[2] EIOPA, Consultation Paper on the Opinion on the 2020 review of Solvency II, BoS-19/465 dated 15 October 2019.

[3] According to the EIOPA statistics (see Appendix 1), there were, at the end of 2018, in total 2,684 insurers subject to Solvency II. This means that 197 insurers are scoped out of Solvency II for other reasons. Of this total, 494 companies were life insurers, and 1,448 companies were non-life insurers. The remainder consists of companies pursuing both life and non-life insurance activities within one legal entity, and reinsurance undertakings (see EIOPA's Report on long-term guarantees measures and measures on equity risk 2018, BoS-18/471 dated 18 December 2018).

[4] This concerns 1 insurer in Cyprus and 2 insurers in Greece. From 2019, IFRS is also required in Bulgaria, adding 5 Small insurers.

the general thresholds presented in paragraph 4, classify the insurers exempted from Solvency II as small, medium-sized or even large.

17 In those Member States that require IFRS in individual financial statements, the number of Small insurers, under these revised thresholds, would, when the revised thresholds would have been implemented at the end of 2018, increase from 3 to between 27 and 35, depending on the option applied.[5] The main impact would be on Malta, where the number would increase between 16 and 21. Compared to the total number of insurers active in the EU, the EFRAG Secretariat still considers this number to be very limited.

18 **Overall, the EFRAG Secretariat concludes that the number of Small insurers that are affected by IFRS 17 in producing their individual financial statements is very limited.**

19 The EFRAG Secretariat notes that if Small insurers are part of an insurance group that does apply IFRS, these subsidiaries need to report IFRS figures and other information for consolidation purposes, and are therefore also subject to IFRS 17. Since there are no public data available on the number of such subsidiaries, it is not possible to provide any quantitative data. However, it should also be mentioned that such subsidiaries will be able to benefit from IFRS 17 implementation activities (including the development of dedicated systems) within the group, thereby limiting the costs they would otherwise incur. The EFRAG Secretariat notes that this advantage is not the case when these subsidiaries are not part of an insurance group, but of a group carrying out other activities such as banking.

20 Furthermore, the EFRAG Secretariat notes that for small non- life insurers the impact of IFRS 17 will be more limited than for life insurers, because, generally, these non-life insurers will be able to apply the Premium Allocation Approach. Under this system, insurance accounting is close to the practices currently applied under IFRS 4, and, for the purpose of measurement and performance reporting, less investments are required then is the case for life insurers.

21 Finally, the EFRAG Secretariat notes that, at the moment, external software providers are active in developing IT systems to apply IFRS 17. Using such external software may reduce internal development cost.

22 **If IFRS 17 is applicable to Small insurers, in particular to life insurers, its impact (including its benefits) is comparable to that on other (life) insurers, discussed in other Issues Papers prepared by the EFRAG Secretariat. Furthermore, compared to the size of these Small insurers, the investments to implement IFRS 17 can be characterised as very significant, although the use of external software may have some mitigating impact.**

Questions for EFRAG TEG
23 Do EFRAG TEG members have any comments or questions on paragraphs 3 to 22?

Proposed text for the Draft Endorsement Advice

24 The EFRAG Secretariat proposes to include the following text in Appendix 3 of the Draft Endorsement Advice.

25 In assessing the impact of IFRS 17 on Small insurers, EFRAG has used the thresholds included in Article 4 of the Solvency II Directive 2009-138/EC to define this population. The most important thresholds refer to gross written premium

[5] This count combines the separate options for life and non-life insurers, assuming that both would be applied at the same time.

income (lower than EUR 5 million) or gross technical provisions (lower than EUR 25 million).

26 EFRAG has chosen this threshold because:

(a) The EU Recommendation 2003/361/EC when determining whether an entity is a SME, was not specifically developed with insurers in mind. The factors in this EU Recommendation are staff headcount, turnover, and balance sheet total, which may not fully fit the financial position and performance of insurers; and

(b) EFRAG has not found any other thresholds in EU accounting legislation that could be applied to define the population of insurers in the scope of SMEs.

27 According to EIOPA, applying the thresholds in paragraph 24 above, there are, at the end of 2018, 573 Small insurers.

28 Given their size, EFRAG considers it reasonable to assume that none of these insurers prepare consolidated financial statements.

29 Based on the national regulations on the application of IFRS in individual financial statements at the end of 2018, 328 Small insurers are prohibited, 3 Small insurers are required and 242 Small insurers are allowed to apply IFRS. Outreach performed by EFRAG has learned that none or hardly any of the latter group uses the available option.

30 EIOPA is currently reviewing the thresholds of Article 4 of the Solvency II Directive 2009-138/EC as per its Consultation Paper on the Opinion on the 2020 review of Solvency II. When any of the options to increase the quantitative thresholds, as proposed by EIOPA, would have been implemented at the end of 2018, the number of Small insurers would increase to between 27 and 35, depending on the option chosen.

31 EFRAG concludes that the number of Small insurers that are affected by IFRS 17 in producing their individual financial statements is very limited.

32 EFRAG notes that in case of small non- life insurers the impact of IFRS 17 will be more limited than for life insurers, because, generally, these non-life insurers will be able to apply the Premium Allocation Approach. Under this system, insurance accounting is close to the practices currently applied under IFRS 4, and, for the purpose of measurement and performance reporting, less investments are required then is the case for life insurers.

33 However, EFRAG also concludes if IFRS 17 is applicable to Small insurers, in particular to life insurers, its impact is comparable to that on other (life) insurers, discussed in other parts of this [draft] endorsement advice. Furthermore, compared to the size of these Small insurers, the investments to implement IFRS 17 can be characterised as very significant, although the use of external software may have some mitigating impact.

Questions for EFRAG TEG
34 Do EFRAG TEG members have any comments or questions on the proposed text for the Draft Endorsement Advice?

Appendix 1: Overview of data underlying the quantitative analysis of the number of insurers in the issues paper

1 The analyses presented below have been derived from data provided by Insurance Europe (regarding the accounting regime for insurers and the number of insurers reporting under IFRS), and from data included in the EIOPA Consultation Paper on the Opinion on the 2020 review of Solvency II, BoS-19/465 dated 15 October 2019. Because of these two separate sources, unexplained differences can occur.

Table 1: Insurance statistics based on the present legislation

Country	IFRS in non-listed consolidated financial statements of insurers	IFRS in individual financial statements of insurers	Number of EU insurers at the end of 2018			Number of EU insurers reporting under IFRS at the end of 2018[6]
			Total	Below present Article 4 thresholds	Subject to Solvency II[7]	
Austria	Permitted	Prohibited	84	49	35	2
Belgium	Required	Prohibited	69	3	66	20
Bulgaria	Permitted	Permitted[8]	37	5	32	37
Croatia	Required	Required	18	0	18	20
Cyprus	Required	Required	32	1	31	33
Czech Republic	Permitted	Permitted[9]	27	0	27	2
Denmark	Permitted	Prohibited	82	11	72	6
Estonia	Required	Required	10	0	10	11
Finland	Permitted	Permitted[10]	50	6	46	5
France	Permitted	Prohibited	713	237	462	13
Germany	Permitted[11]	Permitted[12]	402	27	338	7

[6] This column presents the number of insurers applying IFRS in their consolidated or individual financial statements; the split between these two statements is not available. The numbers do not include subsidiary insurers that apply IFRS only to report to their parent companies for consolidation purposes.

[7] Next to the thresholds in Article 4, the Solvency II Directive 2009-138/EC includes other criteria to scope-in or scope-out insurers from its application.

[8] The Insurance Code and Instructions by the Ministry of Finance require all insurers to apply IFRS. Since 2019, this requirement is included in the Accountancy Act.

[9] If the consolidated financial statements are prepared under IFRS.

[10] If audit is mandatory.

[11] Required for undertakings pending admission to trading on a regulated market.

[12] Only in addition to financial statements prepared under National GAAP.

Greece	Required	Required	38	2	36	42
Hungary	Permitted	Permitted	33	10	23	1
Ireland	Permitted	Permitted	201	1	187	1
Italy	Required	Prohibited[13]	100	1	96	27
Latvia	Required	Required	6	0	6	6
Lithuania	Required	Required	9	0	9	9
Luxembourg	Permitted	Permitted	278	0	268	0
Malta	Required	Required	68	0	65	11
Netherlands	Permitted	Permitted	134	22	132	6
Poland	Permitted[14]	Permitted[15]	60	1	60	3
Portugal	Required	Required	41	0	40	41
Romania	Permitted	Prohibited[16]	29	1	27	29
Slovak Republic	Required	Required	14	0	14	12
Slovenia	Required	Required	15	0	15	15
Spain	Permitted[17]	Prohibited	208[18]		152	8
Sweden	Required[19]	Prohibited	187	26	135	133
Total EU-27			2,945	403	2,402	500
United Kingdom	Permitted	Permitted	493	170	282	37

[13] There were plans to require IFRS for all insurers. This decision has been postponed amid concerns with IFRS 17 (among other factors).

[14] For subsidiaries of a group in which the parent company prepares consolidated financial statements under IFRS, and for entities having filed or intending to file for admission to public trading.

[15] Same as for consolidated financial statements.

[16] IFRS is required for all listed companies, including insurers. IFRS is permitted in the individual financial statements of insurers, but only as a secondary reporting set.

[17] Required for groups in which there is a listed undertaking; otherwise permitted.

[18] Number of insurance companies provided by ICAC. The EIOPA Consultation Paper does not include the relevant numbers for Spain.

[19] Required by the national Financial Supervisory Authority, otherwise permitted. On 19 December 2019, the Authority communicated that it will propose changes in the group accounting regulation for unlisted insurance companies, removing the requirement for these companies and occupational pension funds to apply the IAS-regulation (full IFRS) in their consolidated financial statements. A decision will be made in Autumn 2020, effective 1 January 2021.

Total EU-28			3,438	573	2,684	537

Table 2: Insurance statistics based on the options to increase the quantitative thresholds in Article 4.

Country	Number of insurers at the end of 2018						
	Subject to Solvency II Total[20]	Subject to Solvency II Life	Subject to Solvency II Non-life	Excluded under option 2.2[21]	Excluded under option 2.3[22]	Excluded under option 2.5 Life[23]	Excluded under option 2.5 Non-life[24]
Austria	35	6	12	0	0	0	0
Belgium	66	12	33	3	5	1	3
Bulgaria	32	3	20	7	7	2	1
Croatia	18	3	6	3	3	3	0
Cyprus	31	3	19	1	2	1	0
Czech Republic	27	1	11	1	1	1	1
Denmark	72	47	47	5	5	7	7
Estonia	10	2	7	0	0	0	0
Finland	46	28	36	2	2	7	2
France	462	8	239	52	74	0	43
Germany	338	88	227	15	17	5	13
Greece	36	1	17	2	2	0	1
Hungary	23	4	9	2	2	1	1
Ireland	187	41	91	19	19	2	17
Italy	96	27	51	0	1	1	0
Latvia	6	0	4	0	1	0	0
Lithuania	9	3	4	1	1	2	0
Luxembourg	268	37	35	37	38	2	7

[20] As footnote 2 explains, this total includes, next to life and non-life insurers, also insurers carrying out both activities within one legal entity and reinsurers.

[21] Under this option, all quantitative thresholds would be doubled (to 10 million Euros premium income and 50 million Euros technical provision).

[22] Under this option, the threshold for the technical provision would be doubled to 50 million Euros and Member States would be given the option to decide on the size of the threshold regarding premium income.

[23] Under this option, for life insurers the threshold for the technical provision would be doubled to 50 million Euros and there would be no threshold for premium income.

[24] Under this option, for non-life insurers the threshold for premium income would be doubled to 10 million Euros and there would be no threshold for the technical provision.

Malta	65	7	50	16	16	4	17
Netherlands	132	28	98	10	13	4	7
Poland	60	24	35	5	6	8	1
Portugal	40	12	24	1	1	1	1
Romania	27	7	14	1	1	5	0
Slovak Republic	14	2	0	0	0	2	0
Slovenia	15	0	4	0	0	0	0
Spain	152	2	81	10	14	0	5
Sweden	135	17	104	13	15	6	13
Total EU-27	2,402	413	1,278	206	246	65	140
United Kingdom	282	81	170	46	48	18	44
Total EU-28	2,684	494	1,448	252	294	83	184