Decision document
Limited update on case study

Introduction and Objective

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 as issued.

2 The extensive case study allowed to form an understanding of the impacts of the new standard on European insurers and to identify the list of issues included in the letter sent by EFRAG Board to the IASB in September 2018 as meriting further consideration. The issues identified are listed in the Appendix.

3 Closer to the end of 2018, the IASB started to discuss 25 issues for potential changes to be made to the standard. The IASB, subsequently, issued the Exposure Draft ED/2019/4 *Amendments to IFRS 17* ('ED') in June 2019.

4 The purpose of this decision document is to analyse the extent of updating the case study, the results of which will be used as input for EFRAG's draft endorsement advice on IFRS 17 as amended.

EFRAG Secretariat analysis and recommendations

5 The EFRAG Board took into consideration, among other aspects, the results of both original case studies and issued a letter to the IASB, in September 2018, focussing on six topics listed in the Appendix.

6 The IASB took these six topics into consideration, among other topics, and issued targeted amendments to IFRS 17. Specific to addressing the EFRAG six topics, the IASB defined changes relating to:

(a) Acquisition costs;

(b) CSM amortisation;

(c) Reinsurance – onerous underlying contracts that are profitable after reinsurance; and

(d) Transition – some transition reliefs; and

(e) Balance sheet presentation - cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position.

7 EFRAG submitted a comment letter to the IASB on the ED on 24 September 2019. The IASB started their re-deliberations on the ED in November 2019.

8 The EFRAG Secretariat has taken into consideration the above and as the next step intends to focus on a **limited update to the case study** instead of another extensive one because:

(a) Previously, EFRAG had covered the most significant elements under IFRS 17 as issued (refer to the Appendix) and what would change from then are the Amendments to IFRS 17 and so this would be the focus;

(b) In the previous case studies, there was a representative geographical spread and also a representative sample on insurance portfolios tested for a wide range of product categories (refer to the Appendix);

(c) Assuming that clarity on the outcome of the IASB deliberations would be by March 2020 and the final Standard will be issued by mid-2020, a limited update to the case study would help with the timing of the endorsement process to target that entities can early apply in 2022 (assuming that the effective date would be 2023).

9 One of the areas that the EFRAG Secretariat will look at more comprehensively are costs and benefits to implement IFRS 17 as amended because we consider that looking at the whole amended standard would provide more useful, relevant and complete information rather than only focussing on the Amendments to IFRS 17.

Proposal for limited update on the case study

10 EFRAG Secretariat plans to issue a public call for participants in Europe to do the limited update on the case study (‘LUCS’). The invitation to participate to the LUCS will also be sent to the participants who did the extensive and simplified case studies.

11 The same product categories as the original case studies will be used. Participants do not 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**.

12 The impact assessment for the amendments to IFRS 17 are intended to be included in the LUCS as these are topics where changes have been proposed by the IASB. The LUCS will also cover the impacts of the other decisions that the IASB is taking in the re-deliberations from November 2019 to the first quarter of 2020.

13 As stated in paragraph 9 above, the LUCS will also have comprehensive **questions on costs and benefits focusing on the amended standard as a whole, including the additional amendments resulting from the ongoing re-deliberation.**

14 Questions in the LUCS will be quantitative with reference to the costs and primarily qualitative for the impacts of the Amendments.

Timing and scope of the limited updated case study

15 **The EFRAG Secretariat intends to issue the LUCS in January 2020 with a submission period in April 2020.**

16 The EFRAG Secretariat acknowledges that not all the IASB decisions would have been made by January 2020. The LUCS, to be issued in January 2020, will consider all the IASB decisions to date and for topics where the IASB has not made their decisions, the LUCS will be based on the IASB proposals as per the ED.

17 Subsequent to the issuance of the LUCS in January 2020, as and when the IASB makes their decisions on the amendments, the EFRAG Secretariat may issue updated questions on specific topics or additional topics (where needed).

18 The EFRAG Secretariat assumes that the IASB would have completed their decisions by March 2020 prior to the submission of the LUCS.

Question for EFRAG Board

19 Does EFRAG Board have any comments on this decision document?

Appendix: Background on the extensive and simplified case studies

What was covered in the extensive and simplified case studies?

Extensive case study

1 11 insurers participated in the extensive case study from France, Germany, Italy, Spain and the UK. The participants included primary insurers and reinsurers.

2 The product categories that were used when responding to the case study were:

(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.

3 This extensive case study was mainly a quantitative and participants had to undergo four steps:

(a) *Step 1: Scope* - For each product category which constituted more than 10% of the entity's insurance liabilities (except for reinsurance ceded), the participants had to select two or more representative portfolios.

(b) *Step 2: Applying current accounting* – Apply current GAAP accounting to all the selected portfolios as well as the corresponding financial assets for their entire duration (with a minimum of 5 years) and quantify the results;

(c) *Step 3: Applying new IFRS Standards* – The same as step 2 but applying IFRS 17 and IFRS 9 *Financial Instruments* instead of current accounting.

(d) *Step 4*: *Comparing results* – Compare results of Step 2 and 3 and explain the differences by responding to the case study questions.

4 Most of the selected portfolios, i.e. 77%, were accounted for in accordance with the variable fee approach (VFA). 21% were accounted for under the general model while 2% were accounted for under the premium allocation approach.

5 The questions in the extensive case study covered the following topics:

(a) Pricing;

(b) Impact on the insurance market;

(c) Transition;

(d) Overall measurement;

(e) Scope of the VFA;

(f) Separating components of insurance contracts;

(g) Level of aggregation including identification of onerous groups;

(h) Economic mismatches;

(i) Accounting mismatches;

(j) Hedge accounting;

(k) Insurance business models;

(l) Contractual service margin ('CSM') allocation patterns;

(m) Insurance revenue;

(n) Insurance result;

(o) Insurance finance income/expenses;

(p) Annual cohorts;

(q) Overall impact of applying IFRS 17 on the balance sheet and statement of comprehensive income for at least 5 years;

(r) Comparing IFRS 9 with IFRS 17;

(s) Direct insurance combined with reinsurance;

(t) Sensitivity analysis;

(u) Stress testing;

(v) Sharing of risks;

(w) Discretionary cash flows;

(x) Expected costs (one-off, ongoing and any cost savings) and benefits; and

(y) Overall impact of IFRS 17.

Simplified case study

6 49 insurers participated in the simplified case study and the table shows the type of insurers:

Type of insurer	# of respondents
Insurer	34
Reinsurer	3
Financial conglomerate	8
Mutual entity	3
Pension company	1
Total	49

7 The table below provides details on the geographical spread of participants for the simplified case study.

Country	# of respondents
Belgium	3
France	3
Germany	3
Italy	5
Netherlands	6
Rest of Eastern Europe *	3
Rest of Western Europe **	7
Slovenia	9
UK	10
Total	49

* Czech Republic and Lithuania

** Spain, Austria, Denmark, Sweden and Greece

8 The simplified case study consisted of two components:

(a) Part A – Questionnaire covering general information on the expected impact of IFRS 17 on the insurance business (mainly qualitative, with quantitative information on implementation costs); and

(b) Part B – Questionnaire covering some estimated quantitative impacts of IFRS 17. Out of the 49 respondents, 16 respondents contributed to this section.

9 Part A consisted of qualitative questions relating to:

(a) Insurance activities;

(b) Product trends;

(c) Pricing;

(d) Estimate of costs (one-off, ongoing and any cost savings) and benefits;

(e) Performance indicators; and

(f) Asset-liability management.

10 Part B was similar to the extensive case study in terms of the quantitative four steps that participants had to undergo. The questions in this section covered the following topics:

(a) Transition;

(b) Overall measurement;

(c) Scope of the VFA;

(d) Separating components of insurance contracts;

(e) Level of aggregation including identification of onerous groups;

(f) Economic mismatches;

(g) Accounting mismatches;

(h) CSM allocation patterns;

(i) Insurance finance income/expenses;

(j) Direct insurance combined with reinsurance;

(k) Sharing of risks;

(l) Discretionary cash flows; and

(m) Overall impact of IFRS 17.

Subsequent to the original case studies

CFO Forum presentation to EFRAG – July 2018

11 The CFO Forum, in July 2018, presented their findings from EFRAG's case studies (representing 9 CFO Forum members for the extensive one and 11 CFO Forum members from the simplified one). The following were issues identified by these CFO Forum members:

(a) Measurement issues:

(i) Acquisition cash flows - Acquisition cash flows on new business that is expected to renew cannot be allocated to future periods;

(ii) CSM amortisation;

(iii) Discount rates;

(iv) Multi-component contracts;

(v) Reinsurance;

(vi) Scope of hedging adjustment;

(vii) Scope of the VFA vs GMM and PAA;

   (viii) Transition;

(b) Operational complexity:

   (i) Business combinations;

   (ii) Level of aggregation;

   (iii) Presentational issues; and

(c) Other implementation challenges:

   (i) Pressure on implementation timeline.

EFRAG letter to the IASB – September 2018

12 The EFRAG Board took into consideration, among other aspects, the results of both original case studies and issued a letter to the IASB, in September 2018. In this letter, the EFRAG Board identified the following topics which merited further consideration by the IASB:

(a) Acquisition costs (for costs incurred in expectation of contract renewals);

(b) CSM amortisation (impact on contracts that include investment services);

(c) Reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);

(d) Transition (extent of relief offered by modified retrospective approach and challenges in applying the fair value approach);

(e) Annual cohorts (cost-benefit trade-off, including for VFA contracts); and

(f) Balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables and/or payables).