EFRAG
European Financial Reporting Advisory Group

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Phase 2: Results of the Limited Update to the Case Studies – Costs and benefits Detailed feedback report – for background

Objective

1 This paper provides the detailed feedback of the results of the Limited Update to the Case Studies ('LUCS') specifically relating to the costs and benefits of implementing IFRS 17 *Insurance Contracts* as amended.

2 The report will not be part of the DEA, but a short summary of the report has been prepared to be included in it.

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Costs and benefits – Detailed feedback

Costs

1 **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, where possible, please provide below – for each of the Amendments - whether these proposals reduce or increase the implementation cost of IFRS 17 as amended.**

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

3 The following are the *updated* costs of implementing IFRS 17 as amended for 19 participants (two participants did not provide a response):

	€ millions	Range € millions (minimum – maximum)	No. of participants
Europe (including UK)			
One-off costs	**3,076**	**10 - 395**	**19**
Ongoing costs	**193**	**0.1 - 50**	**9**
Cost savings	**(144)**	**(3) – (76)**	**5**

4 The updated costs split between UK and Europe (excluding UK) are as follows:

	€ millions	Range € millions (minimum – maximum)	No. of participants
Europe (excluding UK)			
One-off costs	2,332	10 - 395	15
Ongoing costs	180	4 - 50	8
Cost savings	(68)	(3) – (50)	4
UK			
One-off costs	744	38 – 326	4
Ongoing costs	13	0.1	1
Cost savings	(76)	(76)	1

5 Comparing IFRS as issued and IFRS 17 as amended, the following table shows that overall, there is an increase in one-off costs.

	One-off costs	Ongoing costs	Cost savings
Total - Europe (including UK)			
Original cost estimated (IFRS 17 as issued)	2,172	151	-
Updated cost estimated (IFRS 17 as amended)	3,076	193	(144)
Increase/(decrease)	**42%**	**27%**	
Europe (excluding UK)			
Original cost estimated (IFRS 17 as issued)	1,538	131	-

Updated cost estimated (IFRS 17 as amended)	2,332	180	(68)
Increase/(decrease)	52%	37%	
UK			
Original cost estimated (IFRS 17 as issued)	634	20	-
Updated cost estimated (IFRS 17 as amended)	744	13	(76)
Increase/(decrease)	17%	(34%)	

6 Comparing the original cost estimate based on IFRS 17 as issued and the revised one based on IFRS 17 as amended:

(a) One-off costs:

(i) Twelve participants reported an increase;

(ii) For four participants, it remained the same;

(iii) Three participants reported a decrease; and

(iv) Two participants did not provide figures.

(b) Ongoing costs

(i) Twelve participants did not mention ongoing costs/ indicated that this had not yet been assessed.

(ii) Four participants reported an increase;

(iii) For four participants, it remained the same; and

(iv) One participant reported a decrease.

7 Reasons for the increase in the implementation costs given by seven participants are the following:

(a) IT – Accounting and reporting (e.g. in order to realise the overall IFRS programme objectives; customisation of sub-ledger, implementation costs for new applications (e.g. CSM)); dry runs/project management; need to change software provider (five participants);

(b) One of the above participants added the following: Changes in the business – demerger and expansion; changes in exchange rates since 2018; shortage of skilled actuarial, accounting and IT resources; complexity of the calculations particularly in respect of experience variances, requires detailed cash information to be input into the CSM calculation engine; disruption due to a change in paragraph B107[1] of IFRS 17;

(c) Effective date (three participants);

(d) CSM run-off; Acquisition cash flows (one participant);

(e) Implementation costs being more complex than expected; changes to the standard made (two participants);

(f) Higher consultancy costs and higher personnel and maintenance costs (one participant);

(g) Granularity of the CSM methodology, in particular the annual cohort requirement and the identification of onerous contracts (one participant).

[1] To require eligibility for the Variable Fee Approach (VFA) to be assessed at contract level rather than for groups of contracts. This interpretation by the participant is rebutted in the Basis for Conclusions of the Standard.

8 Reasons for implementation costs decreased from the original estimate related to cost savings described in paragraph 13 below:

9 Six participants noted that the deferral of IFRS 17 to 2023 would have one-off costs ranging between 2 - 95€ million while one participant indicated cost savings of 3 € million.

10 **If you have noted any cost savings, explain where the cost savings comes from.**

11 Only four participants identified [material] cost savings.

12 One participant indicated that it was too early to estimate any cost savings.

13 [Material] cost savings mentioned relate to the following:

(a) Internal changes (two participants)

(i) increased use of automation and revision to operating model to make use of offshore resource; (one participant);

(ii) (i) Switch to internal solution: development of new platform equipped with a new IFRS 17 calculation engine among other components, interfaced with Group and local entities accounting tools; (ii) operational efficiencies: leverage and optimisation on internal teams (shift from some external resources to internal); optimisation of implementation plan including IT architecture taking into account learning curves (one participant);

(b) The change in the requirement to present portfolio of contracts in an asset or liability position rather than group (two participants);

(c) Changes relating to interim reporting; and scope exclusions (one participant);

(d) Deferral of the IFRS 17 effective date (one participant).

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

15 The costs incurred to date are 42% of the one-off costs. Costs incurred to date ranged from 13% - 70% of the updated one-off costs.

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

17 17 participants did not have a [significant] cost reduction from the amendments. Two of them had material cost reductions, however, they did not think that the complexity of IFRS 17 as amended was justified in terms of the reduction in costs.

18 Most of the above participants reported complexities/concerns existing as stated in paragraphs 41 and 42 below.

19 One participant indicated that IASB's amendments removed some requirements that would have resulted in significant additional costs without additional benefits. Requiring the annual cohorts for contracts with substantial intergenerational risk sharing would increase the implementation costs, therefore there should be a solution on a global level.

20 One participant provided the following comments: Some amendments increase the overall application cost of IFRS 17: the requirement to assess the recoverability of the acquisition cash flow asset is expected to increase the ongoing costs of applying IFRS 17 for entities; establishing specific risk mitigation documentation for the reinsurance contracts where risk mitigation option can be applied; changes to paragraph B107 of IFRS 17.

21 One participant indicated that there are still drivers of complexity that pose major challenges, especially for globally operating insurance companies. A uniform

worldwide date of application and globally harmonised accounting rules are therefore indispensable.

Benefits

22 **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.**

	Weighted average		
	IFRS 17 as issued	**IFRS 17 as amended**	**IFRS 17 as amended without cohorts[2]**
Reflecting the economics of the business	2.4	2.4	3.6
Current accounting	2.4	2.5	3.3
More comparable financial reporting information	2.7	2.7	3.2
Enhanced integration between risk management and financial reporting	2.0	2.0	2.8
Reasonable approximation under the Premium Allocation Approach	3.3	3.0	3.0
Resolving accounting mismatches	2.6	2.8	3.0
Availability of options	2.8	2.8	2.7
Specific measurement guidance	3.2	3.2	3.4
Reduced cost of capital	2.3	2.6	2.3
Uniform Chart of Accounts	1.7	1.8	2.0

23 Two participants did not respond to this question.

24 Where participants have mentioned specific issues in this section, these have been described in paragraphs 41 and 42.

25 Reasons for the *increase* in benefits for IFRS 17 as amended were:

(a) *Resolving accounting mismatches* - Offsetting losses on direct business for reinsurance held; (three participants) investment return services for general model contracts; (two participants) extension of risk mitigation option to reinsurance contracts held and non-derivative instruments to mitigate financial risk) (one participant);

(b) *Uniform chart of accounts* - Extension of effective date has the potential to deliver a strategic rather than tactical solution (but the additional time has to a large extent been absorbed by the COVID-19 crisis) (one participant);

(c) *Enhanced integration between risk management and financial reporting* - due to the recent decision to extend the scope of the risk mitigation option (one participant); there are more options that could be used when looking at both IFRS 9 and IFRS 17 (e.g. hedge accounting for specific simplified products) (one participant);

(d) *Reduced cost of capital* - accounting mismatches addressed, for example, through extending the scope of the risk mitigation option, and through amendments to the accounting for reinsurance contracts held, which would

[2] This column reflects views only from the participants that had a negative cost/benefit assessment, in order to get a better understanding of the extent to which the low level of perceived benefits was due to concerns with the annual cohorts.

improve quality of financial statements and understandability, thereby making the entity more investible. (one participant);

(e) *Reasonable approximation under the Premium Allocation Approach* - decision to require separation of contracts in net asset / liability position at portfolio (rather than group) level reduced cost and complexity (one participant);

(f) *More comparable financial information* - Improvement in the treatment of reinsurance transactions to be more similar to the valuation of the underlying insurance contracts (one participant);

(g) *Reflecting the economics of the business* - Some accounting mismatches are reduced/better reflects the economics (two participants). One of these, however, indicated that mismatches remain leading to more reliance on non-GAAP and regulatory measures over IFRS. The other mentioned the that the issue relating to the non-participating cash flows under the VFA is only partially addressed.

26 Reasons for the decrease in benefits for IFRS 17 as amended were:

(a) *Comparable financial reporting information* – (i) insurance companies make more differing accounting policy decisions as first expected, even within the same jurisdiction (one participant); (ii) potential lack of comparability between peers might exist when different policies and accounting options are selected. Judgmental allocation approach to identify the total return of each cohort also affects specific measurement guidance (one participant);

(b) *Complexity of Premium Allocation Approach* - As the implementation has progressed, certain aspects of the PAA are more complex and add little value (i.e. the need to split PAA Liability for remaining cover into various annual cohorts) (one participant);

(c) *Specific measurement guidance* - The amendments plus the TRG have reduced interpretation scope and introduced non-economic revenue recognition (one participant).

27 The following are comments made by participants (except for concerns/issues mentioned in paragraphs 41 and 42) where there was no change between IFRS as issued versus IFRS 17 as amended:

(a) Comparable financial reporting information

(i) Significant lack of comparability and consistency under IFRS 17, e.g. due to the numerous judgements and policy choices required; diversity in profit recognition on in-force business due to transition choices to be made (one participant);

(ii) Concerns are expressed on the difficulties to define a homogeneous application of the standard since its release in May 2017. Whilst local accounting regulation has been established overtime to reflect the specificities of insurance products, the IASB intends to apply a stringent set of requirements to all insurance contracts, especially those with direct participation (one participant);

(b) Availability of options

(i) For certain product types, there is no option that both reflects economic substance and reduces costs, e.g., not extending the risk mitigation option to contracts accounted for under the General Model (one participant);

(ii) Some of the available options do not necessarily imply lower costs. Also, the combination of IFRS 9 and IFRS 17 for contracts without participation features is likely to increase P&L volatility due to financial

markets (equity type instruments and structured bonds) (one participant);

(c) Cost of capital

(i) Do not expect a significant positive effect (one participant);

(ii) The failure to address the complexity created by IFRS 17 means that they do not anticipate any reduction in the cost of capital for insurance entities in the short term. Benefits could materialise in the medium to longer term (one participant);

(iii) No change to cost of capital (one participant);

(iv) Might increase the cost of capital because market participants need time to understand the new performance measurement model and metrics Then, in a second phase, considering the overall improvement in terms of comparability and transparency within the sector and other financial sectors, there may be a potential immaterial reduction of cost of capital for insurers (one participant);

(v) Key metrics such as return on equity will be out of step with other industries (one participant);

(d) Uniform Chart of Accounts

(i) There is a significant increase in the granularity of calculations and disclosures under IFRS 17 compared to the local regulatory basis. As a result, there will be limited scope to align the chart of accounts between these frameworks. (one participant);

(ii) Will still need a Group and a Local chart of accounts as local gaap will continue to be applied for statutory purposes. On the other hand, the uniform IFRS 17 requirements will ensure a common IFRS Chart of Accounts for Group consolidation purposes. One of the main challenges is producing reliable IFRS 17 figures within the current deadline (one participant);

(e) Resolving accounting mismatches

(i) More analysis and quantitative assessments are needed to determine the extent the amendments resolve accounting mismatches, e.g. the broadening of the scope of the risk mitigation approach (one participant);

(ii) Reinsurance mismatches are reduced (two participants). One of them also appreciated the extension of the risk mitigation option while the other stated that the use of OCI continues to be limited by asset strategy and IFRS 9 deficiencies;

(iii) Note a lack of sufficient interaction between IFRS 9 and IFRS 17 Standards (one participant);

(f) Reflecting the economics of the business

(i) Uncertain whether IFRS 17 will improve understandability due to the complexity of IFRS 17 requirements and extent of change (one participant);

(ii) It remains to be seen if the long-term nature of the business is better explained using current rates rather than using long-term assumed ones. Would need to still use alternative performance (one participant);

(g) Current accounting

(i) Use of updated assumptions provides useful information, but already use this under current gaap (three participants). One of them indicated

that IFRS 17 defers the impact of current assumptions on the income statement;

(ii) IFRS17 does not take into account the interaction of financial assets and liabilities in an ALM management context (one participant);

(iii) IFRS 17 should be a combination of a true and a fair current valuation and a performance reporting reflecting the long-term basis of the insurers business model, thus avoiding excessive short-term volatility recognised through P&L. (one participant);

(h) Reasonable approximation under the Premium Allocation Approach

(i) PAA allows insurers to reduce implementation costs and reduce complexity; (one participant);

(i) Specific measurement guidance

(i) IFRS 17 includes multiple options regarding, for example, transition, discount rate, risk adjustment, and OCI vs FVTPL bases which result in significant variability throughout the group and therefore lack of comparability for both measurement and presentation (two participants);

(ii) Businesses in different countries currently report their insurance liabilities using either local regulatory requirements or existing local GAAP (at the date of transition to IFRS). So do not believe a significant improvement regarding uniform measurement basis (one participant);

(iii) Complexity of the accounting model for insurance contracts with direct participation features will limit the transparency and the comparability of financial statements between group entities (one participant);

(j) Integration between risk management and financial reporting

(i) Limited opportunity to integrate risk management and financial reporting. Hence, do not anticipate a reduction in the amount of work to prepare financial and management reports (one participant);

(ii) IFRS 17 does not reflect, in its current version, the way risk is managed by entities due to level of aggregation requirements (one participant);

(iii) Risks are already managed in accordance with Solvency II. There are few synergies (one participant).

28 **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.**

	Potentially	Unlikely	It depends	Do not know/ too early to say/ difficult to predict	No answer /N/A
Potentially improve quality of information via disclosures?	6	**11**	3	0	1
Increased understanding of the insurance sector by capital providers?	7	**8**	4	1	1
Possible increased attractiveness of the insurance sector to investors?	5	**12**	3	0	1
Possible positive effect on cost of capital of insurers?	5	**12**	1	2	1
Increased understanding of the insurance sector by other stakeholders?	3	**13**	4	0	1

29 One of the main reasons for those that said Unlikely is the complexity of IFRS 17 and calculations, e.g. measurement, operational complexity, transition (fourteen participants). The other reasons are as follows:

(a) No improvement in quality of financial information through disclosure requirements:

(i) Alternative methods/ non-gaap measures may be used to explain business performance or to adjust financial results for accounting mismatches (two participants);

(ii) The principle-based nature of the Standard means that companies could adopt different approaches. Thus, comparability is not entirely granted (two participants);

(iii) Accounting mismatches remaining; existence of options limits consistency and comparability; certain disclosures not useful (disaggregation for portfolios that are assets and liabilities, confidence level for the risk adjustment) (one participant);

(iv) Absence of any significant field-testing; impact on understandability for reinsurance contracts and test in paragraph B107 of IFRS 17 (one participant);

(v) Quantity and extent of disclosure requirements are burdensome and could jeopardize understandability and relevance along with costly fast close due to being part of a bank (one participant);

(vi) Excessive information could result in misleading information (one participant);

(vii) Much of the disclosure requirements are provided in non-GAAP disclosures currently (e.g. the impact of assumption changes etc) or in regulatory solvency reporting; some information will be confusing, e.g. premium excluding investment components; some information have limited benefits, e.g. confidence levels for the risk adjustment (one participant);

(viii) Already an established method for presenting towards the users of the financial statements (one participant);

(ix) IFRS 17 is very complex to digest for investors and legacy key performance indicators e.g. for premiums or combined ratios are expected to prevail at least for some time (one participant);

(b) No increase in understanding of the insurance sector by capital providers

   (i) Market participants will look to other broader metrics of financial strength and will have little reliance on IFRS 17 as not comparable (one participant);

   (ii) Will continue to have a number of industry specific disclosures and concepts that will remain challenging for non-industry specialists to fully understand and assess (one participant);

   (iii) For GI business, currently well understood; IFRS 17 may make financial statements more difficult to understand and less comparable, e.g., differing treatment under IFRS 17 of incurred claims on business originally written by the insurer, and incurred claims on portfolios acquired by the insurer. For life and composite, not yet proven whether IFRS 17 will increase understanding (one participant);

   (iv) Material changes in profitability compared to IFRS 4 will probably reduce the understanding at first, and it will take several years until the capital providers and investors get accustomed to it understanding (one participant);

   (v) IFRS 17 is not reflecting our business model reality based in diversification and sharing of risks (one participant);

   (vi) The understanding of the insurance is primarily based on the understanding of the business and strategy. In some cases, IFRS 17/IFRS 9 set rules that do not always properly depict the economics of our business model (one participant);

   (vii) Already disclosing significant amounts of, more consistently applied, Solvency II information in our analyst reports and SFCRs (one participant);

   (viii) the IASB has on an overall level not addressed some of the most critical topics identified by the industry; for non-life and where PAA is applied, no significant impact expected (one participant);

(c) No increase in attractiveness of the insurance sector to investors

   (i) IFRS 17 does not provide useful information to users on cash emergence (two participants);

   (ii) Requires an investment and a number of years to be specialised in understanding IFRS 17 financial statements (two participants);

   (iii) Due to accounting mismatches existing (two participants);

   (iv) Investors will no longer refer to their extensive financial information database built on IFRS 4 information; non-GAAP indicators that are deemed easier to understand IFRS 17 performance, such as capital generation and cash generation may also be developed (one participant);

   (v) Evaluation metrics for IFRS 17 could be more onerous (one participant);

   (vi) Key metrics reported under IFRS 17 for insurance business such as RoE (return on equity) are inconsistent with other industries and are likely to undermine investors' confidence. Also transition choices impair the ability of users to make comparisons between entities (one participant);

   (vii) For non-life no major diversity in principles so improvement from IFRS 17 is limited (one participant);

(viii) IFRS 4 did not enhance transparency but IFRS 7 sets a high entry barrier in understanding the business purely from financial information (one participant);

(d) No [significant] positive effect on the cost of capital of insurers

(i) Cost of capital would remain mainly Solvency II driven / driven mostly by capital and risk management models of insurers (three participants);

(ii) Increases of volatility in P&L or OCI will not reduce cost of capital (two participants);

(iii) Assume the cost of capital is determined based on economic factors (one participant);

(iv) For bancassurers, the level of own fund at the transition to IFRS 17 will have an effect of the prudential ratios of the banking parent companies. Therefore, this creates a breach of level playing field with pure insurance groups, for which the level of capital is only based on Solvency 2 requirements (one participant);

(v) Due to differences between companies applying IFRS 17 making it more challenging for investors to understand (one participant);

(e) No increased understanding of the insurance sector by other stakeholders

(i) Alternative performance measures are likely to continue to be needed and we anticipate focus is likely to remain on regulatory capital measures (one participant);

(ii) Understanding of all the information may not be clear for all stakeholders, e.g., the CSM measurement is influenced by the subjective nature of the assumptions made (one participant);

(iii) Excessive information does not necessarily mean better information (one participant);

(iv) There are some methodological differences among entities that do not allow a complete financial statement comparison, e.g. disclosing when CSM remaining is expected to be recognised in P&L would depend on the choice related pattern of CSM release (one participant).

30 The following are reasons for those that said Potentially:

(a) Potentially improve quality of information via disclosures

(i) The core principles of IFRS 17 will bring more consistency to financial reporting of the worldwide insurance industry (two participants

(ii) Disclosure requirements of IFRS 17 in explaining the main judgmental areas may assist the users to have a deeper understanding of the financial and economic position (two participants);

(iii) Increased uniformity of accounting for insurance liabilities would increase the capabilities of uniform financial analysis (one participant);

(iv) Financial statements will reflect the real value of the business: in particular the current value of technical provisions and the evidence of the onerous insurance contracts (one participant);

(b) Increased understanding of the insurance sector by capital providers

(i) Will lead to greater comparability / transparency once the users have gained sufficient knowledge (five participants);

(ii) Due to more detailed disclosures (one participant);

(iii) Improves the alignment of IFRS accounting and Solvency II; provides information which is close to the internal steering perspective (one participant);

(c) Possible increased attractiveness of the insurance sector to investors

(i) Due to complexity under IFRS 17, it will take a number of years before there is an increased understanding (one participant);

(ii) Additional or better information could potentially facilitate investment decisions (one participant);

(iii) Due to making comparisons between insurers and other industries easier (one participant);

(iv) In the mid-term to long-term (one participant);

(d) Possible positive effect on cost of capital of insurers

(i) Greater transparency of financial statements may lead to a reduction of the cost of capital (two participants);

(ii) Due to increased comparability of insurance sector (two participants);

(iii) Positive effect in the long run driven by the increased quality of the accounting information. However, this could be reduced by the increased P&L volatility (one participant);

(e) Increased understanding of the insurance sector by other stakeholders

(i) Due to increased comparability and transparency (one participant);

(ii) Further harmonisation could be useful (SII and IFRS 17; local GAAPs and IFRS 17). Some rating agencies are likely to require additional information to mitigate weaknesses of IFRS 17 reporting, e.g. no separate presentation of due payables and receivables (one participant).

31 For those who indicated that it depends: it depended on the type of stakeholders; the stakeholders' willingness to educate themselves, understand the complexities and accept the standard; extent to which users would reduce their uncertainties/risk in investment decisions; whether comparability can be maintained between competitors; extent to which IFRS 17 disclosure reports increase the transparency of the performance of insurance companies; and it depended on the products.

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

33 Even though not aligned, IFRS 17 brings IFRS and solvency reporting closer together (three participants). One of these expects further harmonisation and convergence of local statutory reporting requirements and IFRS and also many non-GAAP measured becoming obsolete.

34 The new systems required to implement IFRS 17 provide an opportunity to further automate financial reporting systems and controls, remove manual processes and increase linkage between actuarial and financial reporting systems (two participants).

35 Certain changes have reduced the complexity of implementation (i.e. Presentation changes at portfolio level), however on balance the changes have a limited positive impact (one participant).

36 IFRS includes a number of features at the request of the industry, for example the VFA and the risk mitigation option (one participant).

37 The postponement of IFRS 7 effective date will free more time to set up the IT tools and processes, and fine tune the target operating models (one participant).

38 Can facilitate the digital transformation journey in insurance companies (e.g. modernisation of data management tools and actuarial engines, internal reporting tools, etc) (one participant).

Overall impact of costs and benefits

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

No. of participants	**Y**	**N**	**Depends**	**No response/ no overall view mentioned**
Total	**5**	**11**	**1**	**4**
Europe (excluding UK)	5	7	1	4
UK	-	4	-	-
Comments made			In the short-term: N, In the long-term: perhaps	o Some benefits outweigh costs but overall, implementation cost could be significant (two participants) o No response (one participant) o Difficult to compare quantitative impact (one participant)

40 Reasons for Y provided by participants:

(a) Even if the standard is complex, there is an improvement in quality / consistent and comparable accounting (three participants).

(b) Ensuring one global standard (without EU proposing changes and with a uniform date of application) outweighs the costs as it will increase uniformity in accounting for insurance contracts. (two participants).

(c) Due to the use of current assumptions in measurement and performance accounting as well as alignment (where possible) with the Solvency II (regulatory) (one participant).

(d) Even if very costly there are significant benefits. Time horizon for the benefits being greater than costs would be mid-term to long-term. The status quo of financial reporting in the sector is not sustainable; IFRS 17 will increase the transparency; many non-GAAP measures might become obsolete; and should help to increase investor confidence in accounting numbers, support financial stability of the sector, and create a global level playing field among insurance companies (one participant).

41 For those that said Y, there were concerns remaining:

(a) Annual cohorts (three participants):

(i) for PAA liability for coverage (one participant);

(ii) in particular for VFA contracts (one participant);

(iii) with substantial intergenerational risk sharing (one participant).

(b) (i) Contracts that change nature over time – VFA vs GM nature; (ii) it is yet to be concluded on whether hedge accounting would apply also to the more real-

life complex insurance products and not only to specific simplified products; (iii) inability to apply the risk mitigation option retrospectively; (iv) the disaggregation of finance income or expense for those cash flows where changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholder are systematically allocated to the income statement which give rise to accounting mismatches as the effective yield of the related assets are not fully matching the mechanics of IFRS 17. (one participant);

(c) (i) Non eligibility of reinsurance contracts to the VFA; (ii) Cash-based measurement of insurance liabilities (iii) Insurance contracts in settlement phase acquired in a business combination / transfer (one participant).

(d) The issue relating to non-participating cash flows under the VFA is only addressed partially (one participant).

42 Reasons for N provided by participants:

(a) Many complexities of the standard, e.g. four measurement models, numerous accounting policy choices, options and judgements (four participants);

(b) [Significant] issues remaining:

(i) Annual cohorts (eight participants)

- for mutualised contracts (two participants);

  One of these participants reported incremental costs on this requirement up to €30million wit running costs of between 10%-20% of one-off cost. They stated that in a low interest rates scenario, the risk is to favour pro-cyclical reporting effects linked to artificial and arbitrary allocations;

- with a significant intergenerational sharing of risks between policyholders and discretionary participation features, and especially those measured using the VFA (one participant);

(ii) Transition: failure to extend the modifications available for MRA. (three participants);

(iii) The application of the test in B107 to a contract level (when combined with the business combination rules) (three participants);

(iv) Accounting mismatches remaining:

- reinsurance: ineligibility to apply the VFA (four participants. One of these mentioned that the issue is only partially fixed by the extension of the risk mitigation option for financial reinsurance;
- reinsurance: different contract boundaries reinsurance contracts held and underlying insurance contracts (three participants);
- non-extension of risk mitigation approach to the general model (three participants);
- inability to apply the risk mitigation option retrospectively (three participants);
- Contracts that change nature over time (four participants). One of these suggested that an election by the policyholder that significantly changes the nature of the contract should be treated as a contract modification;
- locked-in discount rate for CSM; (three participants);
- participating business which has non-participating business as part of its underlying items - The mismatch occurs when the

cashflows on non-participating liabilities end up being valued in two different ways in the liabilities when non-participating contracts form part of the underlying of the participating contracts (one participant);

- the option to set OCI to nil under the fair value approach (two participants);
- while electing for FVTPL, an accounting mismatch would arise resulting from the measurement differences between assets and liabilities due to differences between the asset yield (net of the cost of impairments) and the discount rate (one participant);
- (i) the Expected Credit Loss (ECL) accounted under IFRS 9 does not have the same probability of default compared to the one detected for the liabilities; therefore, accounting mismatch (sic) arises in P&L (ii) in the VFA it is still not clear when using the current period book yield approach if the Loss Component must be considered or not as the standard does not distinguish between situations when CSM is positive and situations when there is a loss component (one participant);

(v) The lack of comprehensive testing by the IASB compared to Solvency II where there were six Quantitative Impact Studies (one participant);

(vi) Due to accounting asymmetry between IFRS 9 (no recycling of equities) and IFRS 17 (one participant);

(vii) IFRS 17 will not be producing financial statements fully reflecting the economics of the insurance business, e.g., information on outstanding payables/ receivables will be lost; several elements in accounting for insurance business combinations: the requirement to assess classification at the acquisition date instead of the original inception date and the treatment of claims in payment at the acquisition date, the latter was partly addressed by IASB for pre-transition acquisitions. (one participant);

(viii) The current approach to GI accounting was globally consistent and well understood by market participants. The cost of PAA implementation remain considerable, (in particular for onerous contracts and the treatment of reinsurance) (one participant);

(ix) Less comparability due to e.g., differing treatment under IFRS 17 of incurred claims on business originally written by the insurer, and incurred claims on portfolios acquired by the insurer (one participant);

(x) Disclosures costly to implement: equivalent confidence level for the risk adjustment; the exclusion of investment component from revenue; and the separate disclosure of portfolios of contracts that are in an asset and a liability position compared to entity level (one participant);

(xi) There are significant challenges to using an OCI approach for indirect par contracts. The finance income/expense must be determined using either a level effective yield or an effective yield reflecting the credited rate. The former results in a mismatch between the credited rate and discount rate while the latter is complex and costly to implement. (one participant);

(xii) Presenting an asset for acquisition cash flows is complex and costly; comparative figures is very complex and leads to substantial costs and workload on the organisation; premiums received meaning premiums actually received at the reporting date, not including premiums due or premiums expected leads to additional costs (one participant);

(xiii) The amendment for Acquisition Cash Flows Assets linked to renewals will require a dedicated tracking to proceed to the impairment tests, and will probably be of limited use (one participant);

(xiv) The current requirements do not reflect appropriately the economics and contractual terms of life and saving contracts eligible to the VFA - the performance of these contracts under IFRS 17 may differ significantly from the way it is currently represented. Because these contracts are long term products and managed as such, their performance is reflected overtime. Yet the requirement to reflect both in the Best Estimate and in the CSM the changes in the fair value of the underlying items create an unexpected volatility in the P&L, which differ significantly from the current representation of the performance (one participant);

(xv) Issues regarding adoption of Hedge Accounting strategies by insurers for general model contracts (one participant);

(xvi) For products with discretionary participation features for savings and annuities, applying the VFA is not sufficient to mitigate the volatility of the results following the application of the current version of the IFRS 17. So, companies may decide to discontinue these products (one participant);

(xvii) An appropriate level of aggregation needed for recognition of onerous business. Also, the combination of IFRS 9 and IFRS 17 for contracts without participation features is likely to increase P&L volatility due to financial markets (equity type instruments and structured bonds) (one participant);

(xviii) Where dual accounting will be kept (local GAAP and IFRS) there will be additional costs and burden. For bancassurers especially, the consolidation reporting process is expected to be more demanding given the additional effort required to aggregate and disclose the insurance results (one participant);

(xix) Deferred acquisition cost impairment test does not appropriately interact with the revisions made to reinsurance; the lack of a link to economics makes it impossible to earn CSM on an economic basis - for both deferred and immediate annuities, investment and insurance services are provided for the whole duration of the contracts; significant operational complications of transition and investment components (one participant).

(xx) For non-life business, not a major diversity in principles, as PAA will be applied therefore, benefits are limited. Also, concerned about the transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 as this means a risk of leading to unreasonably increased costs if having to apply the general model specifically for these contracts instead of the PAA as for all other contracts (one participant).

Additional survey

43 Additional questions were asked to the participants to the LUCS that reported a negative cost/benefit assessment, in order to get a better understanding of the definition of benefits that they had adopted. In particular, they were asked to clarify in more detail whether their assessment would change if (i) the issue of annual cohorts was solved for intergenerationally mutualised and cash flow matched contracts and (ii) adopting a long-term horizon in the assessment.

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

(a) **the application of IFRS 17 as amended could improve the transparency provided to the market of the reported information, as it will make the risk exposures (including market risks) more visible thanks to the current measurement approach of the liabilities.**

45 Most participants thought that IFRS 17 would improve the transparency compared to IFRS 4. One participant disagreed because in the UK insurance liabilities are already measured on a current basis and another participant noted that there is no major diversity in measurement principles today.

46 Of those participants that noted that IFRS 17 would improve the transparency, some made additional comments. One participant noted that the increase in transparency was clear for the P&C business but for the life business the increase in transparency was achieved with a trade-off with a more volatile and difficult to explain profit or loss statement. In addition, two participants noted that transparency would increase by the disapplication of the annual cohort requirement.

(a) **the application of IFRS 17 as amended could improve the comparability of the reported information, as it will remove the different accounting policies used in different jurisdictions under IFRS 4.**

47 Most participants noted that comparability could improve under IFRS 17. One participant noted that there is no major diversity in measurement principles today and hence the incremental improvement was limited. One participant noted comparability was reduced because of the accounting policy choice related to estimates made in the previous interim periods[3].

48 Of those participants that were of the view that comparability could improve, two noted that comparability would be affected because of the use of judgement.

(a) **the application of IFRS 17 as amended could potentially improve the quality of financial information through its disclosure requirements? Please explain. Please focus on how IFRS 17 compares with IFRS 4. For example, the use of MPM is important in IFRS 4 already and will probably continue to be so, so this is not strictly speaking a peculiarity of IFRS 17.**

49 Half of the participants noted that quality of financial information would improve through the disclosures of IFRS 17. One participant disagreed because IFRS 4 is more aligned with the current Solvency II reporting. Another participant disagreed because each country can apply different methodologies, e.g. in relation to release of CSM, calculation of the risk adjustment or the VFA eligibility.

50 The participants that noted that information quality would improve noted the disclosures were burdensome, time consuming and detailed.

(a) **the application of IFRS 17 as amended could lead to an increased understanding of the insurance sector by capital providers? Please explain. Please assess separately this topic in the short term (1 to 3 years from the first-time adoption) and in the medium-long term (more than 4 years). The experience of Solvency 2 implementation, for example, has shown that an adjustment period is needed for the market to fully adjust to the new approach and to react with a lower cost of capital.**

51 Most of the participants noted that IFRS 17 was too complex to lead to increase understanding of investors in the short term. However, in the mean to long term they

[3] This relates to the amendments to IFRS 17 as requested by the industry that allows entities to follow a period to date or year to date approach where interim financial statements have been published.

were positive. One of those participants noted that the increase in understanding was limited to particular areas such as reinsurance held and acquisition cash flows related to renewals, while the area of annual cohorts for mutualised business would not be understood.

52 One participant disagreed and did not think that the implementation of the standard will open the industry up to generalist investors

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

53 Half of the participants noted that IFRS 17 could lead to an increased attractiveness of the insurance sector. However it also noted that this would depend on a number of factors. Such as the increase in volatility or the application of annual cohorts. One participant noted that the increased attractiveness would not happen in the short term, but could happen at a later stage due to the time required by the market participants to understand the new performance measurement model. One participant thought the increase in attractiveness would be insignificant because of the complexity of the standard.

(a) **the application of IFRS 17 as amended could lead to a modernization in the overall reporting and control system to the benefit of management and shareholders? Consider in particular accounting the managerial information of the current value of liabilities, the correlation profit/coverage service, risk data and reporting closer to accounting, more robust and integrated IT, enhanced internal governance over material accounting policies. Please explain.**

54 Some participants noted that the modernisation in reporting had already taken place with the implementation of Solvency II. Others were of the opposite view and noted that that some modernisation in the financial reporting was to expected. One of them noted that the disappearance of the annual cohorts would simplify the improvement of the reporting requirements due to a lesser complexity. Finally, one participant noted that whilst at the onset a modernisation had been expected this has eroded due to the cost/benefit and the persistency of low interest rates.

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

56 Half of the participants saw no additional benefits. One of them noted that the disappearance of annual cohorts would be an important benefit compared to IFRS 17 as amended.

57 Some participants provided the following comments. One participant noted they had already adopted IFRS 9. They expected the implementation of IFRS 17 would lead to a decrease in the accounting mismatch. One participant noted that entering into the new standard relying on current measurement works correctly in times of increases in financial markets, but not so in a context of low interest rates, high volatility and rate spreads.

58 **Do you consider that the expected benefits (i.e. IFRS 17 compared to IFRS 4) outweigh the expected costs to implement IFRS 17? Please explain.**

59 Most of the participants noted the costs exceeded the benefits.

60 One participant noted that for the P&C business the standard is broadly appropriate but not so for the life business. In case a solution would be found for the annual cohorts this would partially resolve the issues. Also another participant noted that under the scenario of finding a solution for the annual cohorts their cost/benefit assessment would change.

Appendix – Participants who responded to Phase 2: Costs and benefits of the LUCS

Prudential	UK
Mapfre	Spain
GBFA	France
R+V	Germany
NN Group	The Netherlands
Poste Vita	Italy
Phoenix Group	UK
Reale Mutua	Italy
VidaCaixa	Spain
ASR	The Netherlands
Aegon	The Netherlands
Intesa SanPaolo	Italy
Cattolica	Italy
AXA	France
Aviva	UK
Generali	Italy
Legal and General	UK
If P&C Insurance Group	Sweden
Munich Re	Germany
Grupo Catalane Occidente	Spain
Allianz	Germany

Names underlined also participated in the additional survey.[4]

[4] One additional answer was received too late to be included in this overview.