GROUPEMENT FRANÇAIS DES BANCASSUREURS
IFRS 17

Mr. Jean-Paul Gauzes
EFRAG Board President
EFRAG
35 Square de Meeûs
B-100 Brussels, Belgium

Paris, 29 January 2021

Re: Draft endorsement advice of IFRS 17

Dear Mr. Gauzès,

We have the pleasure to respond to the EFRAG comments request on its draft endorsement advice on IFRS 17 *Insurance Contracts* as resulting from the June 2020 amendments, on behalf of the Groupement Français des Bancassureurs (French Bankinsurance Group), the professional association of bankinsurance (one of the three components of the French Insurance Federation). Based on 2019 data, our members represent 64% of life insurance gross written premiums in France and 61% of technical reserves, as well as a market share of 18% on individual P&C insurance (motor and household).

We would like to express our appreciation for the implication the EFRAG has demonstrated in the assessment of the issues raised by stakeholders regarding this new standard. We thank the EFRAG for giving us the opportunity to share our comments on IFRS 17 as amended in June 2020.

In its comment letter to the IASB on the Exposure Draft 2019/4 "Amendments to IFRS 17" dated 25 September 2019, the Groupement Français des Bancassureurs, in line with the French Insurance Federation, welcomed the decision of the IASB to reopen the standard as well as many of the proposed amendments, but insisted that some issues still remained to be solved. This is still the case for some of these issues in the final version of the standard, the most significant of them being the annual cohorts requirements for contracts with a significant intergenerational sharing of risks between policyholders. In our opinion, for those contracts, the requirements neither meet the technical endorsement criteria, nor are conducive to the European Public Good. In line with other stakeholders, out of which the FFA and the CFO Forum, we therefore believe that this issue should be immediately addressed through a standard-setting solution as part of the European endorsement process. For us, this issue is of such importance that its resolution should neither be postponed by several years to the Post-Implementation Review of the standard by the IASB, nor should it delay the implementation of the standard.

Indeed, except for the "annual cohorts" issue, and despite less problematic remaining issues which are summarised below, we clearly support its first-time application no later than 1st January 2023.

Level of aggregation for contracts with intergenerational mutualisation

As previously mentioned in our letter dated 3 June 2020 (answer to EFRAG Limited update on Case Study IFRS 17 Implementation impacts), we duly thank the EFRAG for the attention paid to the annual cohorts requirements. Some of our members have been closely involved in the preparation of two of the three solutions which were sent to the EFRAG Board for its 20 May 2020 meeting.

Given the utmost importance for us due to the legal and contractual framework of the French life and savings contracts (as well as similar contracts in Italy and Luxembourg), and considering the materiality of these contracts in our financial statements (978 884 million euros, 77.4% of total liabilities in the 2019 consolidated accounts of the 6 insurers who answered the questionnaire in appendix), we believe that a European solution to this issue should be proposed as part of the European endorsement process, because it should not delay the implementation of IFRS 17 on 1st January 2023 at the latest.

Accordingly, we agree with the French accounting standards setter (ANC) proposing to define this scope of exemption to the annual cohort requirements as embedding contracts:

(i) with cash flows that affect or are affected by cash flows to policyholders of other contracts (as outlined in IFRS17.B67-B71);

(ii) with direct participation in a common pool of assets; and

(iii) that meet the VFA criteria.

We alternatively consider, as the CFO Forum, that the scope of an exception could be defined replacing (iii) the VFA criterion by the requirement in (i) that "cash flows substantially affect or are affected by cash flows to policyholders of other contracts", the "substantial" feature being the same as required in the current definition of the VFA (IFRS 17.B101).

This issue is linked to the characteristics of the contracts, and, if the European Union introduces the previously defined exception, it should apply to all intergenerationally mutualised contracts, irrespective of their geographical origin, and be limited to those contracts (preventing tainting to other contracts). This exception would be temporary until the IASB itself amends the standard in a way that solves the issue.

Other topics linked with IFRS 17

We also would like to highlight the following topics, which should not prevent the endorsement of IFRS 17, but should be carefully followed up and addressed as part of the IFRS 17 Post-Implementation Review (at the latest) or other standards maintenance projects:

- Reinsurance of direct participating contracts is excluded from the Variable Fee Approach (VFA). For proportionate treaties (either held or issued) which by construction transfer a financial risk to the reinsurer, this generates an accounting mismatch with reinsured participating contracts measured using the VFA. This accounting treatment is not solved by the risk mitigation option and does not reflect the economic conditions of related reinsurance schemes. In addition, including in the reinsurance contract boundaries the projected reinsurance cash flows relating to underlying insurance contracts not yet issued is costly for no material benefit.

- Not separately presenting receivables and payables from the carrying amount of insurance and reinsurance contracts on the face of the balance sheet requires costly modifications to the existing policy management systems and projection models, without providing useful information to the users of financial statements. This issue is also applicable to collateral deposits related to reinsurance contracts, which correspond to a guarantee and not to a prepayment, and thus should not be treated as such.

- We agree with EFRAG that the current and prospective measurement model of IFRS 17 may create a more volatile result that may not appropriately reflect the profitability pattern of certain long-term contracts over time. For insurance contracts measured under the VFA, the change in the measurement of options and guarantees (the “Time Value of Financial Options and Guarantee (TVOG)”) is accounted for against the Contractual Service Margin (CSM), which tends to overestimate the short-term effect of the profitability based on the current actuarial methodologies. We remain convinced that this does not adequately reflect the behaviour of long-term contracts under specific and temporary economic conditions. We have observed that, in stressed market conditions, the increase in the TVOG will immediately reduce the CSM of direct participating contracts, overriding their long-term profitability. In that regard, such a downside volatility is procyclical. As already mentioned in our 3 June 2020 letter, had we have to apply IFRS 17 in our interim accounts for March 31 2020, the result arising from those financial statements would probably have limited our financial support to the measures in favour of the French economy. As a consequence, we believe that the accounting treatment of TVOG required by the standard should be further investigated in connection with in-depth actuarial studies focusing on technical reserves modeling, in order to determine a measurement better reflecting the performance assessment of the savings business.

- Liabilities of insurance contracts acquired in their settlement period in a business combination or a portfolio transfer have to be fully reclassified as liabilities for remaining coverage. This reduces the comparability with similar insurance contracts issued later by the entity and between entities growing organically and those growing through acquisitions.

Other topics linked with IFRS 9

- Comparative information is mandatory in the first financial statements prepared under IFRS 17 for insurance contracts. However, for insurers electing to produce IFRS 9 comparative information for financial instruments, only financial instruments still present in the balance sheet as at 1st January 2023 will be measured under IFRS 9. Therefore, for the 2022 comparative period, financial instruments will be disclosed under a mix of IFRS 9 and IAS 39 requirements, which will not be consistent with 2023 data, and will not be relevant for users. Besides, it will be operationally burdensome as both standards will have to be applied concurrently for financial instruments in 2022. One solution would be that, as part of the European endorsement process, a full IFRS 9 comparative information would be allowed for insurers applying IFRS 17 and IFRS 9 simultaneously for the first time. This could be possible with the carve-out of the last sentence of paragraph 7.2.1 of IFRS 9.

- As long-term investors, French bankinsurers are especially concerned by the prohibition to recycle in profit or loss the amounts accumulated in other comprehensive income (OCI) for equity instruments measured at fair value through OCI. We therefore strongly support the suggestions made by EFRAG in its technical advice of 30 January 2020 to the European Commission regarding the measurement of long-term investments in equity and equity-type instruments. We fully agree with EFRAG’s advice that the European Commission should recommend to the IASB an expeditious review of IFRS 9 in order to reintroduce recycling combined with a robust impairment model. We encourage EFRAG to reiterate these solutions as part of the Post-Implementation Review of IFRS 9 that the IASB has just started.

Our responses to the detailed questionnaire of the DEA Appendix are attached to this letter.

Precisions regarding our detailed responses in the appendix

We had difficulties to answer a clear “Yes” or “No” to several questions. While we do not fully agree with EFRAG’s assessment for all issues other than annual cohorts, we do agree with EFRAG’s assessment that these topics should not block the endorsement of IFRS 17 for a first-time application in 2023. In this context, we chose to answer ‘Yes’ and to add comments to better explain our positions: our comments are therefore to be taken into consideration both for “No” and “Yes” answers.

If you have any questions regarding this submission, we would be pleased to discuss any of these points further with you. Please do not hesitate to contact us.

Yours sincerely,

Jean Vecchierini de Matra

General Delegate – Groupement Français des Bancassureurs