IFRS 17 *Insurance Contracts*
Simplified Case Study
for insurers that apply IFRS Standards and are not participating in the detailed case study

Introduction

1 The purpose of the Simplified Case Study is to gather information from insurers that apply IFRS Standards and are not participating in the detailed case study. The collected information will be used as input into EFRAG's draft of an advice to the European Commission on the endorsement of IFRS 17 *Insurance Contracts* (IFRS 17).

2 All input received from responses to this Simplified Case Study will be aggregated with input from other responses and sources – no information that would permit the identification of individual insurance companies will be made public. This is in conformity with the EFRAG Field Work policy which can be found here.

3 The Simplified Case Study consists 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.

4 All insurance companies that apply IFRS Standards are encouraged to complete Part A. Part B is for those companies that have developed sufficient information to be able to estimate the likely impact of IFRS 17 on their financial statements.

5 Responses are requested by **Thursday 31 May 2018.**

6 If you have any queries, please contact the EFRAG Secretariat insurance team by email (IFRS17Secretariat@efrag.org) or by phone (+32 (0)2 210.44.00 and ask for Joachim Jacobs).

PART A – General information

Introduction

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 How far advanced are you in implementing IFRS 17? 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 activities

3 Provide a short description of the main jurisdictions in which you operate and the main product types offered in each jurisdiction (showing also the percentage of total business contributed by each product type and the basis for identifying how the percentage of business is derived). For each product type, identify whether you expect to apply the General Model, the Variable Fee Approach or the Premium Allocation Approach if IFRS 17 is endorsed for use in the EU/EEA:

Jurisdiction	**Product type**	**% of business**	**IFRS 17 approach**
Example: Country A	*Health insurance* *Fire insurance*	*X%* *Y%*	*General Model* *Premium Allocation Approach*
Example: Country B	*Life insurance*	*Z%*	*General Model*
Percentage of business based on		*Example - revenue*	

4 For each product type, please provide a brief explanation of your current accounting methodology and the key differences from IFRS 17.

Product type	**Current accounting**	**Key differences from IFRS 17**
Example: Country A fire insurance	*Premiums recognised evenly over coverage period*	*No significant differences*
Example: Country B life insurance	*Prudent provisioning for liability as follows …*	*No discounting of future cash flows or discounting with changes recognised in OCI* *No CSM or CSM allocation required, profit recognition takes place upfront/over time/at the end of the contract* *No losses on onerous contracts recognised*

Product trends

5 Do you expect that the application of IFRS 17 will affect the product types that you offer (either by reducing product types or by adding new products)? Please provide a short description of any expected changes and an explanation of how/why IFRS 17 will lead to the changes described.

Pricing

6 (A) Do you expect that IFRS 17 will change your current pricing methodology?

☐ Yes ☐ No ☐ Do not know

(B) If you answered YES, please explain what changes you expect and why this will result from the application of IFRS 17.

Type of change	**Reason for change**

Estimates of costs

7 Are you planning to adapt/upgrade your systems only to the minimum extent needed to apply IFRS 17, or are you planning a more substantive upgrade/review of your systems (e.g. for improved efficiency)?

Implementation costs

8 Please provide the expected **one-off** implementation costs of implementing IFRS 17. The comment column provides an opportunity to explain your responses. Please explain which requirements of IFRS 17 are expected to have the greatest positive or negative impact on one-off implementation costs and quantify that impact if possible.

One-off costs	**Internal**	**External**	**Total**	**Comment (examples)**
Classification of Insurance contracts				
IT - Actuarial systems				
IT- Accounting and reporting systems				
Non-IT systems				
Understanding IFRS 17				Include costs of internal training
Investor relations				
Other costs				Please identify cost categories.
TOTAL:				

Ongoing costs

9 Do you expect ongoing costs of applying IFRS 17 to be greater than, equal to or less that your existing ongoing costs of applying IFRS 4 *Insurance Contracts* (IFRS 4)? Please explain which requirements of IFRS 17 are expected to have the greatest positive or negative impact on ongoing costs and quantify that impact if possible.

IFRS 17 requirement	**Type of impact**	**Amount of impact**

Impact of costs of implementing Solvency II

10 To what extent will the implementation of Solvency II reduce the costs of applying IFRS 17? Please indicate the effect in the table below and explain how the implementation of Solvency II have this effect.

	To a great extent	To some extent	No effect	Do not know	Explanation
Implementation costs					
On-going costs					

Benefits of IFRS 17

11 For each of the potential benefits highlighted below please indicate 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.

Potential benefits for preparers of financial statements	1	2	3	4	5	Qualitative description
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.						
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 enhance the understanding of the chart of accounts.						
Level of aggregation IFRS 17 requires entities to aggregate insurance contracts in the way that they are managing their contracts. In addition, portfolios are to be divided into groups and groups shall not include contracts issued more than one year apart. This way of aggregating leads to trend information that may be useful for internal and external stakeholders.						
Resolving accounting mismatches IFRS 17 allows entities to present insurance finance income or expenses either in profit or loss or disaggregated 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 some alternative performance 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 of their true financial position at any reporting date.						

Potential benefits for preparers of financial statements	**1**	**2**	**3**	**4**	**5**	**Qualitative description**
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 IFRS 17.						
Specific measurement guidance IFRS 17 provides entities with more prescriptive requirements than IFRS 4 around measurement which could lead to more uniformity 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 reducing the amount of work to prepare financial and management reports.						
Sharing of risks Although IFRS 17 does not foresee an exemption from the use of annual cohorts for contracts that fully share risks, IFRS 17, paragraph BC138, notes that the requirements specify the amounts to be reported, but not the methodology to be used to arrive at those amounts.						

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

(a) the application of IFRS 17 could potentially improve the quality of financial information available in financial statements prepared using IFRS 17? Please explain.

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

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

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

Performance indicators

Internal

13 Please identify the five main performance indicators (KPI) you use internally for managing your business, explain how these are calculated and the expected change (if any) under IFRS 17.

Internal KPI	**Calculation**	**Expected change**

External

14 Please identify the five main performance indicators (KPI) you provide to external investors, explain how these are calculated and the expected change (if any) under IFRS 17.

External KPI	**Calculation**	**Expected change**

Asset-liability management

15 To what extent do you hold assets to back specific liabilities and to what extent do you hold assets in a general fund?

	Amount	**Percentage**
Assets backing specific liabilities		
Assets held in general fund		
Total assets		100%

16 (A) Do you expect that IFRS 17 will change your current investment strategy and/or approach to asset allocation?

☐ Yes ☐ No ☐ Do not know

(B) If you answered YES, please explain what changes you expect and why this will result from the application of IFRS 17.

Type of change	**Reason for change**

PART B – Quantitative information

Introduction

17 Participants in this case study are asked to undertake the following steps:

(a) **Step 1**: Selection of a representative portfolio.

(b) **Step 2**: Apply current GAAP accounting to the selected portfolio *as well as* the corresponding assets.

(c) **Step 3**: Apply IFRS 17 and IFRS 9 *Financial Instruments* to the selected portfolio *as well as* the corresponding assets.

(d) **Step 4**: Compare the results with your current accounting for the selected portfolio (quantitative and qualitative) and explain the differences.

Step 1: Selection of portfolio

18 Identify your major product type in accordance with the definitions set out in Appendix I and

(a) Select one portfolio for testing purposes;

(b) Explain why you selected this product type and this portfolio; and

(c) Provide the following quantitative data based on your 2017 financial statements:

	Total revenue	Profit (or similar measure)	Total liabilities	Total assets
Portfolio				
Product type				
Total company				

19 The selected portfolio should include contracts subject to a similar measurement approach and be representative of the product type.

Step 2: Application of current GAAP

20 Apply current GAAP to the selected portfolio as well as the corresponding assets for their entire duration (minimum 5 years) and quantify the results.

21 In doing so:

(a) The portfolio is run off in an excel sheet over its full duration (minimum 5 years) with graphic representation of the profit or loss before tax and other comprehensive income statements;

(b) The expected asset returns used are explained:

(i) By providing information on the asset type(s) e.g. (bonds, equities, real estate) and the associated returns. If a composite return is used, explain how it is calculated; and

(ii) By providing information on the discount rate(s) used and how these have been determined.

Step 3: Application of IFRS 17 and IFRS 9

22 Apply IFRS 17 and IFRS 9 to the selected portfolio *as well as* the corresponding financial assets for their entire duration and quantify the results as if 1 January 2017 was the date of application of IFRS 17. For transition, apply the full retrospective method if information is available. Otherwise apply the modified retrospective method or the fair value approach and explain your choice of approach.

23 For the selected portfolio, identify whether it will be measured subsequently using the General Model, the Variable Fee Approach or the Premium Allocation Approach.

Step 4: Comparison with current accounting and explanation of the differences

24 This step focusses on the differences between the current and the IFRS 17 accounting treatment and assesses the impact. It also considers other issues arising from IFRS 17.

Step 4.1. Transition

25 For the selected portfolio, quantify the impact on opening retained earnings and other components of equity as reported under current GAAP.

Step 4.2 Overall measurement

26 For the selected portfolio, please provide the following information for every year until at least **31 December 2021**:

	Current accounting			Applying IFRS 17		
31 December	Measurement of the portfolio liability *(EUR)*	Discount rate used (if any)	Liabilities duration	Measurement of the portfolio liability *(EUR)*	Discount rate used	Liabilities duration
2017						
2018						
2019						
2020						
2021						

Step 4.3. Scope of Variable Fee Approach

Only answer this question if you applied the Variable Fee Approach to the selected portfolio OR would have liked to apply the Variable Fee Approach to the selected portfolio.

27 (A) Do you agree with the scope of the Variable Fee Approach?

☐ Yes ☐ No

(B) Please explain the reasons for your answer.

Step 4.4. Separating components of insurance contracts

28 Applying your current accounting requirements to the selected portfolio, do you separate any components from your insurance liabilities and measure them differently? If so, please explain why these are separated.

29 Applying IFRSs 9, 15 and 17 to the selected portfolio, identify whether any components need to be separated from your insurance liabilities. In addition, please explain the proportion of the insurance liabilities that would be separated.

Step 4.5 Level of aggregation

30 IFRS 17 describes portfolios as comprising contracts subject to similar risks and managed together. In this case study:

(a) was the product type you chose the same, smaller or larger than a portfolio as defined by IFRS 17?

(b) was the portfolio you chose the same, smaller or larger than a portfolio as defined by IFRS 17?

31 For the selected portfolio:

(a) Indicate the number of groups this would comprise under current GAAP;

(b) Indicate the number of groups this would comprise if you had applied the grouping requirements under IFRS 17 rather than the exemption at transition; and

(c) Explain the difference.

32 For the selected portfolio:

(a) How many of the groups are onerous under IFRS 17 and were any of these groups considered onerous under your current GAAP?

(b) What is the overall amount of loss (i.e. the loss component for remaining coverage) incorporated in those groups at transition date?

(c) How much of that overall loss is due to changes in asset returns?

(d) How much of that overall loss is currently covered by risk sharing as defined by IFRS 17 (see definition under question 41) and what is the net loss after risk sharing as defined in IFRS 17?

(e) What is the result of the IFRS 4 liability adequacy test?

33 (A) If you identify future cash flows at a higher level of aggregation than group level, explain your process of allocating those cash flows to particular groups.

(B) If you identify future cash flows at a higher level of aggregation than group level and these cash flows fully share risks please explain how you ensure that the CSM is fully derecognised when all the contracts in a group are derecognised and that it is recognised in the correct periods?

Step 4.6 Economic mismatches

Economic mismatches arise if the values of, or cash flows from, assets and liabilities respond differently to changes in economic conditions.

34 For the selected portfolio:

(a) Identify the economic characteristics of the liabilities (duration, transactional currency, jurisdiction issued, fixed or variable guarantees, options included, etc);

(b) Taking into account the fund where the assets are held (see paragraph 15), identify the economic characteristics of the covering assets (duration, transactional currency, jurisdiction located, fixed or variable interest rates, options included, sensitivity to re-allocation, etc);

(c) Quantify any economic mismatch between the insurance liabilities and the corresponding assets and explain what strategy, if any, is used to minimise the economic mismatch.

Step 4.7 Accounting mismatches

Accounting mismatches arise if changes in economic conditions affect assets and liabilities to the same extent, but the carrying amounts of those assets and liabilities do not respond equally to those economic changes.

35 For the selected portfolio:

(a) Identify the asset-types that correspond to those liabilities and how these are accounted for today and under IFRS 9.

(b) Taking into account the fund where the assets are held (see paragraph 15), are the assets held to back specific liabilities or held in a general fund?

(c) When using a general fund, explain the methodology used to allocate assets to the corresponding liabilities.

(d) Quantify any remaining accounting mismatch between the insurance liabilities and the corresponding assets.

36 For the selected portfolio:

(a) Identify which accounting policy choice for insurance finance income or expense under IFRS 17 you would apply.

(b) Compare any remaining accounting mismatch with any accounting mismatch under current accounting.

Step 4.8 CSM allocation patterns

37 For the selected portfolio:

(a) Explain how coverage units are assigned over the life of the selected portfolio;

(b) Quantify the CSM allocation to profit or loss for the entire duration of the portfolio;

(c) Compare this with your previous methodology for recognising “revenue” or any other KPI used under your current accounting requirements; and

(d) Quantify the difference over time.

	Coverage units	CSM allocated	Current revenue/other KPI	Difference
2017				
2018				
2019				
2020				
2021				
Total				

Step 4.9 Insurance finance income/expenses

38 For the selected portfolio:

(a) Explain your current methodology to determine insurance finance income/expense over the life of the contracts involved;

(b) Quantify the outcome over the life of the contracts involved under current accounting;

(c) Quantify financial income/expense under IFRS17; and

(d) Explain the difference.

	Finance income/ expense (current)	Finance income/ expense (IFRS 17)	Difference	Explanation of difference
2017				
2018				
2019				
2020				
2021				

39 For the selected portfolio, do you consider that IFRS 17 and IFRS 9 insurance finance income and expense principles will deliver consistent and understandable reporting of financial performance for insurance contracts within a group or portfolio as relevant? Please explain.

Step 4.10 Direct insurance combined with reinsurance

Only answer this question if you reinsure part or all of the selected portfolio.

40 Please explain how you account for the combination of direct insurance and ceded reinsurance under your current accounting practices and provide the following information.

	CSM release patterns	Economic mismatches	Accounting mismatches	Insurance finance income and expenses
Direct insurance contracts				
Reinsurance ceded				
Net difference				

Step 4.11 Sharing of risks

Risk-sharing is described in IFRS 17 as cash flows of one group of policyholders that affect the cash flows of another group of policyholders.

41 For the selected portfolio:

(A) Does the portfolio share risks with other insurance portfolios?

☐ Yes ☐ No

(B) If yes, what proportion of the risks in the portfolio are shared?

Step 4.12 Discretionary cash flows

42 For the selected portfolio

Does the portfolio benefit from cash flows that are attributed on a discretionary basis by the insurance entity?

☐ Yes ☐ No

If yes, to what extent does the portfolio benefit?

Step 4.13 Overall impact

43 In your view, does IFRS 17 take into account the specificities of the insurance sector? Please explain.

44 (A) Do you think that IFRS 17 will result in a change in investment strategy?

☐ Yes ☐ No ☐ Do not know

(B) If YES, please explain per liability class and type of asset used.

Asset types	Current invested amounts	Expected invested amounts	Explain the changes (qualitative)
Example: equity instruments	€ X	€ Y	
Bonds	€ A	€ B	

Step 4.14 Overall comment

45 Do you have any other comments on the application of IFRS 17 that are not addressed in the questions above? Please explain.

Appendix I: Product types

The following product types are used for Part B of the Simplified 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.