

To: Irene Tinagli  
Chair of Committee on Economic and Monetary Affairs  
European Parliament  
1047 Bruxelles

Your  
reference:  
Our  
reference: ECO-FRG-20-053

Subject: Response to Hans Hoogervorst's intervention in ECON Committee

Brussels, 18 March 2020

To the honourable Member of the European Parliament

Dear Ms Tinagli,

I am writing following Hans Hoogervorst's, Chairperson of the International Accounting Standards Board (IASB), visit to the ECON Committee on February 18. In order to avoid any undue confusion on the situation of the insurance industry in Europe, we would like to provide some additional information to ensure a full understanding of some of the topics covered and to also provide some industry feedback on the decisions the IASB has made on IFRS 17.

*On low interest rates and the key role played by Solvency II*

Mr Hoogervorst's comments could give the impression that for European insurers there is no consistent measurement or public disclosure of insurers' financial position, that without IFRS 17 the current low interest rates are not taken into account in the measurement of, and reporting on, assets and liabilities and European insurers are still using historical interest rates from 10 or 20 years ago to discount their liabilities, when rates were much higher.

**In fact, in Europe we already have Solvency II, Europe's very sophisticated prudential framework, in place since 2016. Solvency II already reflects the low-interest environment. Its measurement approach ensures that changes in interest rates, including negative interest rates, are reflected in the valuation of assets and liabilities. Solvency II also ensures that European insurers already assess their liabilities based on current assumptions that are regularly updated and it completely reflects the costs of options and guarantees.** So European insurers are already using interest rates based on current market rates and not historical rates for prudential reporting purposes. While Solvency II needs some focused improvements to better capture the real economics and risks of long-term business, the issues are of over conservativeness – it certainly captures the low interest rate environment in its measurement of insurers' balance sheet.

**The purpose of IFRS and Solvency II are different. The purpose of IFRS are is to provide meaningful reporting on a company's performance and financial position. Its focus is not as a prudential tool for customer protection – this is the role of Solvency II.** IFRS 17 can bring more market-based and consistent measurement in the reporting of profit across Europe and with the improvements sought by the industry and EFRAG it can do this in a way that reduces unnecessary costs and operational complexity

In general, European insurers have been reacting to and preparing for low interest rates for some time. This includes looking hard for investments (such as infrastructure) that can provide a reasonable return for the risks, even under current market conditions. On the liability side, companies have lowered guarantees on new business in line with the lower returns available. In some cases, products have been redesigned and there has been a shift towards unit-linked business. And, of course, asset liability-matching and hedging remain key tools that are used to manage interest rate risk.

Mr Hoogervorst implies that without IFRS 17 there is no public reporting in Europe of insurers' financial on a fully economic basis. **However, one of the three pillars of Solvency II is transparency. It requires insurers to provide comprehensive quantitative and qualitative information about their regulatory financial position and capital management on a market-consistent basis and to publish this** in Solvency and Financial Condition reports that are fully publicly accessible – eg to investors, creditors and other stakeholders.

Furthermore, this information and a great more besides is also made available to their supervisors to enable the latter to discharge their duties to promote the safety and soundness of regulated firms and to protect policyholders. **The supervision of insurers in the EU is one of the most far-reaching and comprehensive in the world, with full focus on insurers' risk profiles and the quality of their risk management and governance systems, and is accompanied by considerable regulatory powers of intervention as soon as the high Solvency Capital Requirement (SCR) is breached.**

*On the degree to which the IASB has addressed the concerns raised by EFRAG*

The industry has been and continues to be committed to the development of high-quality financial reporting standards and engaged constructively with the IASB to achieve a standard of suitable quality and ensure a successful global adoption. However, the original standard published in 2017 was not good enough and the IASB's decision to re-open and consider improvements to the standard was welcome.

EFRAG has since undertaken extensive work on IFRS 17 including an impact assessment and a significant analysis of technical and operational issues and concerns. EFRAG identified 6 issues that should be addressed in the final IFRS 17 standard. The insurance industry identified a wider set of improvements needed in order to improve performance reporting and reduce the implementation burden and proposed solutions. Within these we highlighted three priority issues which are the level of aggregation, transition and presentational issues. The EFRAG issues were included in those raised by the industry, including our three priority areas. The European Parliament's Motion for Resolution sent in September 2018 also included many of the issues raised by EFRAG and the industry.

**We appreciate the decision to delay the effective date for IFRS 17 and IFRS 9 until 1/1/2023 and that progress that has been made on a number of the industry's issues. However, we are disappointed that the IASB has left key concerns unaddressed.**

**Only three of the 6 issues raised by EFRAG have been addressed by the IASB (Acquisition costs, Reinsurance, Presentation).** One other (CSM amortisation) has been partially addressed, another hardly improved (Transition) and one not at all addressed (Annual Cohorts). Unfortunately, this means that of the three industry priorities only one has been appropriately addressed.

The annual cohorts issue remains completely unaddressed and is of great importance because it goes to the heart of the insurance business model. The insurance business model (and our ability to offer products to customers) is based around mutualisation and pooling of risks. This means aggregating individual contracts into portfolios and managing the aggregate risk. The current IFRS 17 annual cohort requirement does not recognise this and creates rules for contract aggregation which does not reflect the way those are managed.



See the annex for an overview of our assessment of the extent to which the IASB addressed the issues raised by the European Parliament, EFRAG and the industry.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Olav Jones", is written over a horizontal line.

Olav Jones

**About Insurance Europe**

Insurance Europe is the European insurance and reinsurance federation. Through its member bodies – the national insurance associations – Insurance Europe represents all type of insurance and reinsurance undertakings, e.g. pan-European companies, monoliners, mutual and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for 95% of total European premium income.

Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out nearly € 1 100bn each year to customers, directly employ over 950 000 people and invest over €10 200bn in the economy.

The annex below offers a comparative analysis between the issues raised by the [industry](#), by the European Parliament in its [Motion for a Resolution](#), and by [EFRAG](#) – and the IASB’s proposed amendments through the re-deliberations process to date.

Issue	Industry issues	EP Motion for resolution	EFRAG issues	IASB: Current situation
<b>Level of aggregation (Annual Cohorts)</b>	<b>x (Priority)</b>	x	X	<b>No change</b>
<b>Transition</b>	<b>x (Priority)</b>	x	x	<b>Limited relief</b>
<b>Presentational issues (incl interim financial statements)</b>	<b>x (Priority)</b>	x	x	<b>Largely addressed</b>
Reinsurance	x	x	x	Largely addressed
CSM amortisation	x		x	Partially addressed
Acquisition cash flow	x		x	Largely addressed
Scope of hedging (retrospective risk mitigation option and risk mitigation option scope extension)	x		x	Largely unaddressed
Scope of VFA model vs GMM vs PAA	x			No change
Discount rates	x			No change
Multi-component contracts	x			Partially addressed *
Business combinations	x			No change
Interaction and mismatch between IFRS 9 and IFRS 17	x	x		Partially addressed
Need for more time (effective date for IFRS 17 & IFRS 9 should be postponed until 2023)	x	x		Addressed