

Project Insurance Contracts

Paper topic Update on investor activities on IFRS 17 *Insurance Contracts*

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1. Executive summary

Investor reactions to IFRS 17

What investors think about IFRS 17

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Over 70 meetings

30 buy side, 27 sell side, 13 mixed groups, 6 credit rating agencies

Over 370 investors and analysts

43% Europe, 23% Asia Pacific, 21% Global, 7% Africa, 6% North America

Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures
- Transparency

Areas of concern

- Entity-specific judgements
- Accounting options

BUT disclosures will help to assess the effects of judgements and options on comparability

- Most welcomed:
 - improvements in financial reporting transparency and comparability
 - source of profits for long-term insurance contracts
 - realistic, readily comparable data provided by disclosures of contractual service margin and risk adjustment for non-financial risk
 - a comprehensive, consistent IFRS Standard for insurance contracts to be applied globally
- Virtually all in Europe felt the similarities between IFRS 17 and Solvency II made it easier to understand the measurement approach taken by IFRS 17

- Information about future profitability of new insurance contracts
 - similar to non-IFRS information provided by some today (eg embedded value information), but consistent methodology
- Recognition of revenue consistent with the recognition of revenue for most contracts with customers in other industries
 - insurance revenue reflects the amount charged for insurance coverage when it is earned
 - deposits included in premiums not reported as insurance revenue; increased comparability between the profit or loss of insurers and that of banks

- Existing useful information will continue to be provided (eg premiums received and ‘loss reserve triangles’)
- More transparent and comparable data will be provided, given the requirements to discount liabilities for incurred claims and to calculate and disclose an explicit risk adjustment
- Combined ratio will be calculated in a more consistent way when entities apply IFRS 17



2. Who we talked to

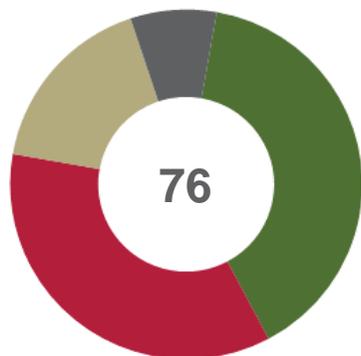
General background information and overview of the discussions by investor type and by regional specialty

- IFRS 17
 - was issued in May 2017
 - replaces IFRS 4 from 2021
 - introduces fundamental changes to existing accounting practices for some entities
- Investors and analysts need to assess the implications for their analyses of the changes in reporting
- The Board has planned educational activities:
 - informative materials (eg effects analysis, project summary)
 - discussions to illustrate the information that IFRS 17 will provide to investors and analysts compared to today

- Over 70 discussions with over 370 investors and analysts from mid-May to the end of January 2018, including 13 roundtable style events
- Majority of attendees specialise in the insurance or financials sector
- Meeting attendees also included generalists (multi-sector and region coverage) and a few accounting specialists
- Locations: Europe (France, Germany, Italy, Switzerland and the United Kingdom), the United States, Canada, Tokyo, Hong Kong and Australia

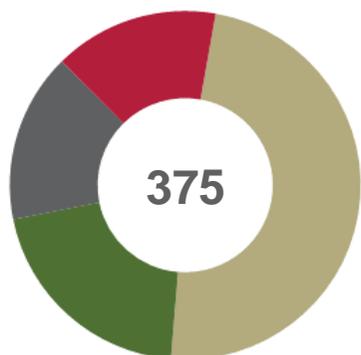
Investor type

Discussions



Investor type	Number	Percentage
Buy side	30	39%
Sell side	27	36%
Mixed group	13	17%
Credit rating agency	6	8%
Total	76	100%

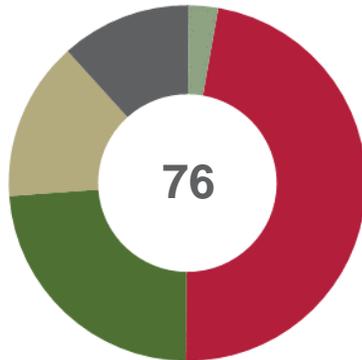
Participants



Investor type	Number	Percentage
Mixed group	182	48%
Buy side	77	21%
Credit rating agency	59	16%
Sell side	57	15%
Total	375	100%

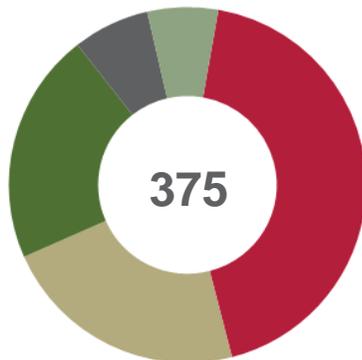
Regional specialty

Discussions

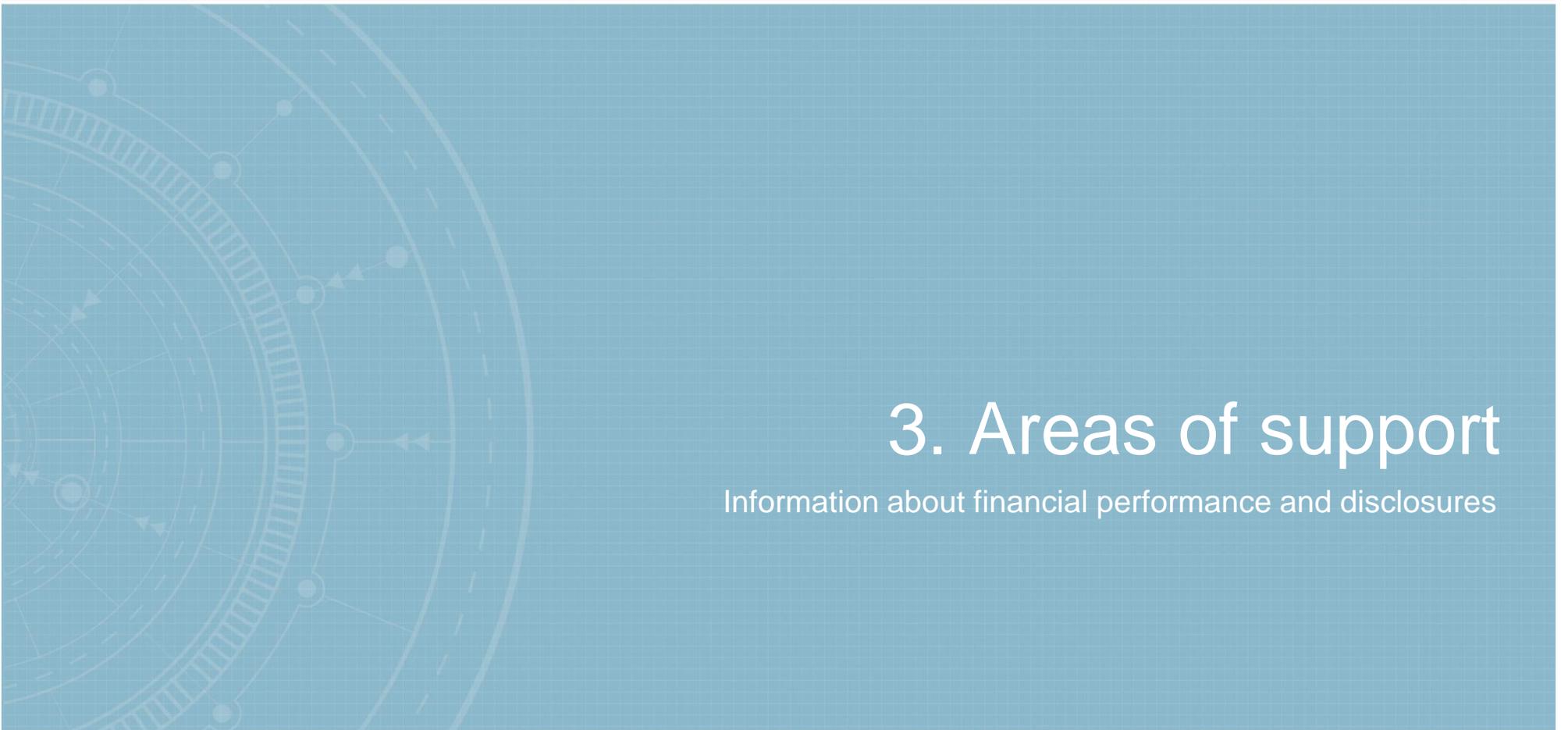


Regional specialty	Number	Percentage
Europe	36	47%
Global	18	24%
Asia Pacific	11	14%
Africa	9	12%
North America	2	3%
Total	76	100%

Participants



Regional specialty	Number	Percentage
Europe	162	43%
Asia Pacific	84	23%
Global	79	21%
Africa	26	7%
North America	24	6%
Total	375	100%



3. Areas of support

Information about financial performance and disclosures

Improvements welcomed by investors

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CONSISTENCY

2

COMPARABILITY

3

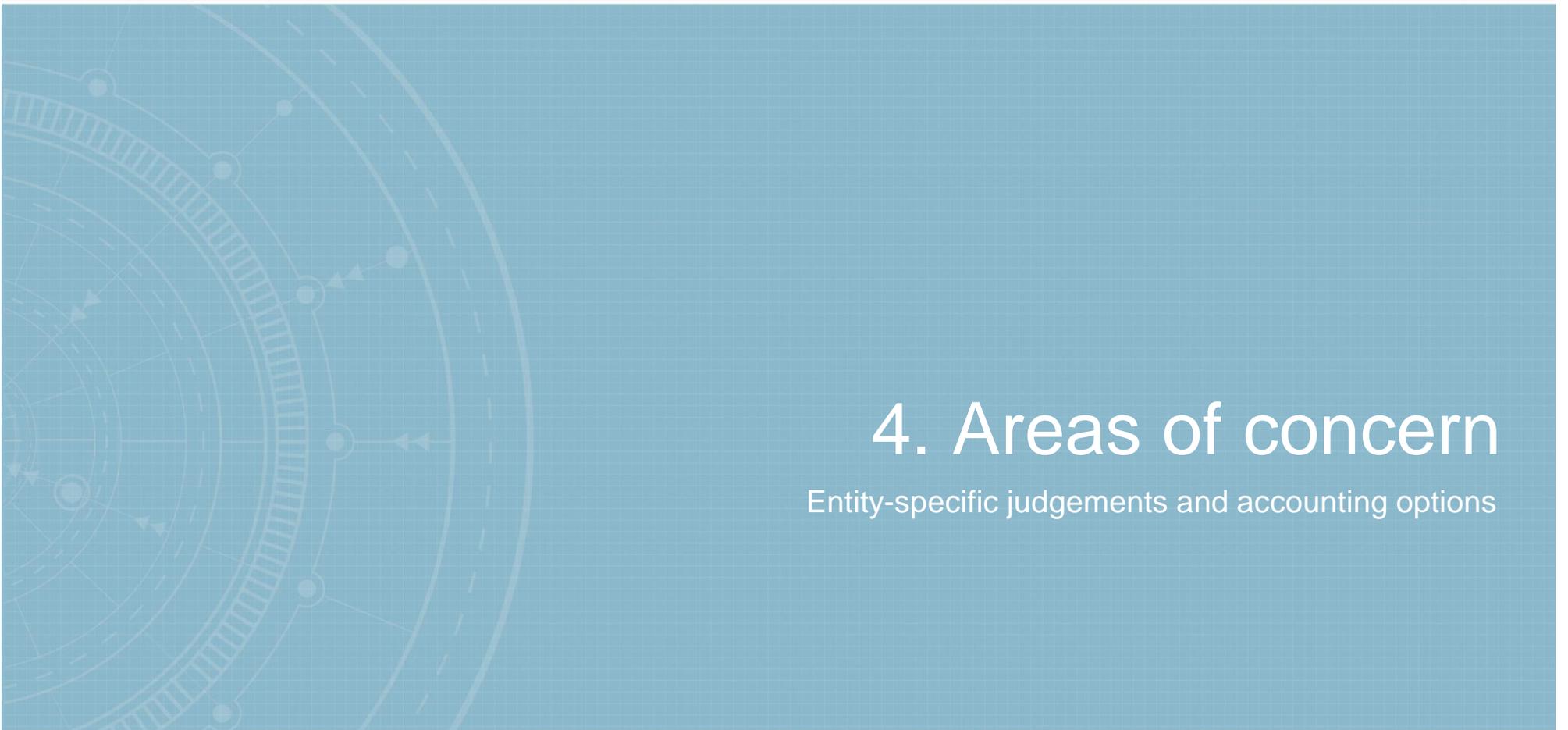
TRANSPARENCY

IFRS 17 will help to understand the source of profits for insurance services

- Insurance service result and net financial result presented separately
- Profit for insurance services recognised as the insurance services are provided—no day-one gain
- Onerous contracts identified at initial recognition and subsequently
- Discount rates reflect the insurance contract liability characteristics independent of asset allocation choices
- Information about reinsurance contracts held, including explanations of changes in reinsurance contract assets separately from changes in insurance contract liabilities
- Profit recognition pattern will no longer depend on the type of insurance contract

Disclosures will help to understand the reasons for changes in the amounts reported in insurers' financial statements

- Comprehensive disclosures about:
 - changes in insurance contract liabilities
 - significant judgements and changes in judgements made in applying IFRS 17, including: the yield curve, confidence level used to determine the risk adjustment for non-financial risk and expected future recognition of the contractual service margin in profit or loss
- Appropriate level of detail, for example:
 - type of contracts (eg major product lines)
 - geographical area
 - reportable segment



4. Areas of concern

Entity-specific judgements and accounting options

The principle-based nature of IFRS 17 could limit comparability between insurers

- Accounting for insurance contracts is heavily reliant on assumptions
- Entities will use judgement to determine key factors for the measurement of insurance contracts (eg discount rates, risk adjustment, initial contractual service margin)

The process for estimating discount rates and risk adjustment must be described and disclosed. Information disclosed will help understand the amounts recognised in the financial statements and the changes in those amounts

Option for the presentation of the effects of changes in financial assumptions

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Optional presentation of the effect of some changes in financial assumptions in other comprehensive income could impair comparability between insurers

- Insurers can choose to present the effects of changes in discount rates and other financial variables either (i) in profit or loss or (ii) disaggregated between profit or loss and other comprehensive income
- Options add complexity to analysis of the information reported by entities

Explanation of methods used to determine the amounts recognised in profit or loss provides a basis to adjust information reported by entities to make it more comparable

The use of alternative transition methods could result in a loss of trend information for some groups of insurance contracts

- Retrospective application of IFRS 17 provides the most useful information by allowing comparison between contracts written before and after the date of transition
- If a full retrospective application is impracticable, an entity can apply alternative transition methods to determine the contractual service margin for groups of insurance contracts in force at the date of transition

Required disclosure of the 'transition contractual service margin' in subsequent periods could be a mitigating factor

Transition options do not affect accounting for new business



5. Material available for investors on IFRS 17

Webinar and publications



Webinar—IFRS 17 for investors
(more than 2,000 views)



- **Effects Analysis on IFRS 17**—describes the likely costs and benefits of IFRS 17
- **Project Summary of IFRS 17**—provides an overview of the project to develop IFRS 17



The Essentials for investors—
translates existing terminology
and metrics into the language of
IFRS 17

Visit: <http://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-17/#education>

6. Next steps

- Continue to our efforts to raise awareness amongst investors
 - IFRS 17 educational meetings
 - Board members and staff participating at industry conferences
 - Collaborating with National Standard Setters on investor educational activities
 - Developing further publications/materials on particular aspects of IFRS 17