

Interviewees and practical elements :

Fredre Ferreira, Sapna Heeralall and Joachim Jacobs are three EFRAG technical manager who participate in analysis regarding IFRS 17 and its impact. The interview was taking place over the phone in a conference call which is rewritten hereunder.

Retranscription :

LD : Hello, so I'm Lucas Dufrasne and I have sent you an e-mail to discuss about different aspects of IFRS 17 for my thesis. All 3 of you are technical manager for the EFRAG and have accepted this meeting for my master's thesis. Can I record our interview?

Collective answer : yes of course.

SP : So this is Fredre, here is JJ and I am Sapna. Actually, we received your e-mail and you are looking for some information on IFRS 17.

LD : Yes

SP : Just as an introduction, we would just like to know what you are studying and what you are looking to incorporate in your thesis?

LD : So I am studying management in Mons with an option in audit and accounting. I would like to compare IFRS 17 with its former version IFRS 4 and see the consequences , the expected consequences.

SP :Just out of curiosity, you contacted us but just how do you intend to look at its consequences?

LD : Well, I would like to look at it for the impact it can have on the measurement of the insurance liabilities and how they are reported in the financial statements as well as how the performance, the financial results are also reported. Does that bring better, more comparable statements and of course why and how they would be better or not?.

FF : Have you been advised to take this route or was it your own idea?

LD: No it was my own idea, I proposed it to my thesis supervisor and he agreed so I went on with this direction.

FF: I think what you want from us is what we have or what we think?

LD: Yes, what you think of the new norm and how it will affect the measurement and reporting and the accounting for such liabilities?

FF: Have already spoken to some of the insurance companies that you could speak to?

LD: I have not done it already because I have a survey of Deloitte that gives me insight on insurers across the world on its topic so I didn't think it was that interesting.

FF: I think what you should do in order to keep manageable is to compare just IFRS 4 and 17 because that is your goal. In Europe, we have people recognizing profit in front, recognizing profit over time, recognizing it at the end, people who do historic rates and historic assumptions or people that update assumption and interest rates. We have a variety of all of that, so it might be easier to not look at all that but to concentrate on just Belgium IFRS 4 or how IFRS 4 applied in Belgium, it would be more useful.

LD: Yes....

FF: If you were to plan to move to France or Germany after your studies, this could be possible to see how they apply. I think you should speak with insurance companies, but somebody who has information for you. Maybe also the institute of accountants to figure out how it is but IFRS 4, but look IFRS 17 cannot be worse than IFRS 4 but that's not a very high benchmark, I will put it that way.

They basically said, whatever you were doing previously, you can just continue. So there was a mix of practices maybe even just in Belgium. I think people might still treat similar product in similar fashion in the same country but I am not sure we haven't received feedback from Belgium especially. But to give you an example from insurance companies in the UK, they do what I told you that they use current interest rates and they use current assumptions, so on the liability side IFRS 17 will probably have not so much changes even though the risk margin is different and the measurement method is completely new and that it does not have but for the most part they don't discount their liabilities and they use current assumptions but in the UK, for annuities, they

recognize the profit upfront which they can't do under 17. In other countries they may recognize the profit upfront for other types of products.

Maybe you should stay a little more narrow. The CSM is of course completely different and we don't know how the risk margin will compare because it will depend on the previously used GAAP, it might not be written down, that might just be practices.

LD: Yes, it may depend on the formerly used GAAP then, but in terms of disclosures, the new standard does not bring anything new either isn't it, just more because the models are well developed.

FF: Yes but then the income statement presentation will be completely different because IFRS 17 states a lot of things but you might want to speak with some of the insurance specialist in the big four but they might be able to help you as well, I don't know many in Belgium. No we don't really have any name from Belgium unfortunately.

LD: yes thank you that's still good.

FF: Sorry but is not that active and we are not that active either so we don't have any other names for you. But in terms of what you are looking, when we look at the countries in Europe, Italy, Germany France do participate more but they are bigger players so... but are you still on the planning phase or have you already done more research etc..?

LD: No I have already read the two standards and papers from big four and written about it of course before contacting you.

SP: What we can do is that we can provide you with some documents and some analysis that we have, but just to let you know that what we have for you is already in the public domain. We have done it with our technical group with our board and that's a work which is public. But papers that could be more interesting for your thesis, I could provide you with an e-mail with the documents from the meetings which you choose from. We have done some analysis but with the IFRS 17 which is still changing.

LD: Yes there are still amendments on the way so it may change.

SP : So we have our drop that we may provide to you and as you may also be aware, EFRAG as a company has also provided a letter to IASB with topics that we think should be reconsidered. So

they are all documents that we can provide you but they could potentially change since IFRS 17 is not final, our work is also a draft it's not final.

FF : I would be cautious about how to handle and quote those documents mainly because, they are not draft, they are not final. It might help you but those are discussion and not approved. It might still help you to see the consideration about the liabilities and the measurement.

SP : But in terms of impact on the financial statements, we did, well we interviewed some credit analyst, we also have a report that we have done from those interviews so we can also submit that to you but again,

SP : But with the IFRS 17 published in 2017, a number of insurance companies did some testing on the impact of IFRS17, we have a summary of such testing and the impact as well as a case study with a fully explained process and a simplified case study which targets its questions, we will provide link. But those people are still struggling with how to do and with models.

FF : I'm not sure how far they went, you know, their numbers are really rough , they are not so reliable but that can give you an indication for at that time.

JJ : Those numbers are not on very high level, I think that the question to use it will be on what are you going to concentrate at the end of the day. Because there are different kind of accounting practices today in Europe. If you concentrate on one country or one practice it may be different. In 2005, you have some people that have more department to use and practices so the biggest will be to see what you're comparing to, you see what I mean....

FF : One thing that I was thinking while JJ was talking was whether or not you want to cover all three models or only one. You may not want to worry about PAA and VFA because especially in Belgium they are not quite concerned about those models. I don't know how long your thesis has to be but well...

LD : It must be around 70 pages something like that.

FF : Well on the balance sheet, things will be mostly different from write-off to everything. I don't know if you want to address all three models in this comparison of yours but if you look at 17, do you want to do just the general model or general model and VFA or just VFA or whatever because I think sometimes, it's something to think about because otherwise, it might become a little

tricky. I think you should watch per product because while there may be some changes, we don't expect them to be this material.

LD : ok

SP : so as a summary, we can send you links to document that are in the public domain that can help.

LD : yes thank you.

SP : but since that's also a political game (laughs) some people don't like the answers and want to change it. So the documents are relevant at the time we discuss it and there could be changes to follow. For example, we have a document on the cost and benefits, expected cost and benefits of IFRS 17 but that would potentially change again if there is a change so we can provide you with information but you have to be very careful with how you quote them for a thesis.

LD : being careful with the timeline of the documents and so right.

FF : So, we have nothing else to say, do you have anything else that you would like to ask us or do you have any comments?

LD : The thing is I would like to incorporate the consequences the practical consequences like KPIS and so on and I would like to know what you think about it for the KPIS as I said but also for the organization or the needs of data of the insurance companies.

FF : Do you realize that it's really

LD : I realize that it's a really broad question but

FF : We have insight, well revenue was based on the premiums received in the income statement and they had a lot of indicators that ere based thereon so they definitely will have to change their KPI . We haven't heard a lot yet from what can be expected but if you want to learn more, you should watch the documents from consultancy to see what they say about it. People have started to go from one balance sheet to another for solvency II, the regulation for the balance sheet and technical provisions and they have KPIS on that but IFRS 17 will have an impact on the reporting process and the KPIS and how insurance companies have to tell the story but we don't have more

insight on that except that some way we did, some work but I'm not sure we can give to you but if it's public, we will provide you because we are not sure we can talk about it.

LD : yes no problem.

FF : but KPIS are not uniformly consistent, for companies across countries. If we take some companies one that we have a lot is for the P&L the short-term combined ratio. That was, they might use such a ratio but they may need to change also because following estimations, if like 90% companies had a good ratio in the past, then it might be 10% now, well I'm elaborating, but whatever they will need to recalibrate what is a good number and how to calculate it, I could see that happening as well. Because I think combined ratio, the percentage of x per premium for example, then since the calculation is different, the denominator might change and the idea of a good number will be different as well, they may need to recalculate. You know you will a different in front income or something but like we say. You can take some of the biggest insurance in Belgium or whatever companies there is and you will see their numbers, performance measurement and we guarantee you they are quite different.

JJ : I will suggest you may look at the top 5 and the probably have an appendix over this topic in the financial statements. They will explain how they calculate their numbers and even though, they may use the same name, in practice, they would be quite different. So it's also different from country to country. I know for example in the UK they are more focused on the like cash they earn. They focus on cash generation. How much cash can we distribute, how much have we earned, so they are not so much focused on other things in their indicators.

FF : and also on the solvency II requirements that they need to make.

LD : So,one last thing that I read was that there may be a possibility to use the solvency II regulation to help measuring and implementing the IFRS 17 with some of its concepts. I wonder what you think about it and for what kinds of measurement.

FF : Not talking about IASB but actually eiopa which the supervising authority for European insurers, they did a study and report in which they explain the synergies between Solvency II and IFRS 17 that can be used. For example, in IFRS there is the risk margin, euh risk adjustment and in Solvency II , there is the risk margin. So the number under Solvency II could form the starting point for the calculation under IFRS 17. But there is some other elements that could be useful. You

can google the report of eiopa on IFRS 17 and you should find it. I would be pretty skeptical whether or not they can use the numbers directly because this prudential and they have very different objective, IFRS reports on performance while eiopa makes those firms continue into the future. And for example it publishes the template that all firm in Europe use the same way. We have not studied but we think, well I think that is not the architectural basis under 17. So you would use the same rate in Germany and Spain under IFRS but under Solvency you would, so it wouldn't be the same end rate for both regulation and then you have the cash flow concept, under Solvency II and the contract boundaries which might be similar but also different in some cases, so yeah they can start with these numbers but that will not be it. Because Solvency II does not have a CSM, for example. I think that's what brings the most problem I think to not use Solvency II for IFRS 17 because that concept is completely nonexistent.

LD : I don't have any other questions right now, I don't know if you have anything to add about the topics we have discussed or not.

SP : We don't we have said everything (laughs) the subject is so subject to change and different from the start that there is nothing sure anymore, it was supposed to be in 2021 now its in 2022, which could be interesting to put in your thesis, some insurers even wanted to get a further delay. That's another political subject. But we will provide you with the documents and with your email but you really should put in your thesis that they were relevant only at the date.

FF: Well we are open to answer your questions but the next month, month and a half or so, we will be in a busy period so you have our emails, we would try to answer. We are not academic but I hope that our input can be useful.

LD : Yes I'm sure that it is useful, thank you for your time and have nice day.

(All 3) : Yes thank you bye