A study on the expected impact of IFRS 17 on the transparency of financial statements of insurance companies

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Diplôme : Master en sciences de gestion, à finalité spécialisée en Financial Analysis and Audit
Année académique : 2016-2017
URI/URL : http://hdl.handle.net/2268.2/2782

A STUDY ON THE EXPECTED IMPACT OF IFRS 17 ON THE TRANSPARENCY OF FINANCIAL STATEMENTS OF INSURANCE COMPANIES

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For a degree of Master in Management specializing in Financial Analysis and Audit
Academic year 2016/2017

Acknowledgments

I would like to express my deepest gratitude to my supervisor Patrice Schumesch for sharing with me all the needed information as well as essential remarks with me. I thank him for taking the time to answer my questions and helping me especially when he did not have so much time to give. I would like to thank Sebastian Harushimana for having always been available for me and providing me with his expertise on the developed subject. Furthermore, I would also like to thank Joséphine Capodici and Pierre-Yves Dalimier as readers of this master thesis, for the time they took and their valuable comments. Finally, I would like to express my gratitude to all the insurance professionals who have kindly accepted to help me by meeting me and answering my questions. Their help has been much appreciated.

Thank you so very much,

Félix MIGNOLET

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1. Introduction

The International Accounting Standards Board has published the new standard IFRS 17 Insurance Contracts on the 18th of May 2017, hence the title of this thesis. This new standard shall supersede the previous IFRS 4 Insurance Contracts. In a paper published by the Board regarding the effective date (2016), they discussed the effective date and it is proposed that: "an entity should apply IFRS 17 for annual periods beginning on or after 1 January 2021, assuming IFRS 17 is issued in the first half of 2017". They also declare that an entity can also apply IFRS 17 before that date if the entity also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers at the same time.

The board recognizes that 3 ½ to 4 years is a long implementation period. They justify this long period by the fact that this new standard is going to be pervasive for most entities that issue insurance contracts. The reason why the board is not willing to extend this implementation period is because in the meantime, IFRS 4 and its wide range of accounting practices for insurance contracts remain in practice. According to the IASB, IFRS 4 does not provide transparent information about the effect of insurance contracts on financial statements (Scott, n.d.). They also state that existing accounting makes comparisons difficult between products, companies and across jurisdictions. The disadvantages of IFRS 4 and the reasons of the need of IFRS 17 will be discussed more in detail in the next section.

The objective of this paper is to analyze the changes brought by this new standard in terms of transparency of the financial statements. It will also attempt to explain what is new in terms of comparability between the insurance companies but also, which is maybe more important, the comparability with other industries. Indeed, the IASB wishes that with the help of this new standard, the revenues of insurance contracts could be compared to other revenues from any other industry. In order to do that, many insurance professionals from different sectors that are all impacted by IFRS 17 have been met. Questions regarding what the Board was discussing in its draft papers have been asked. The data that has been collected will be presented in a further section. Before meeting these different persons, it was necessary to understand what the main differences with IFRS 4 were and therefore get a minimum of knowledge about IFRS 4 shall not be particularly discussed here since it is not the purpose of this paper.

Lots of research of what is happening today has therefore been done, using many different tools such as draft papers, implementation examples or blogs and articles. The main resources of information were the papers published by the IASB itself since they do a lot of communication with the concerned actors. In order to write and publish a new standard, the Board first publishes a discussion paper in order to understand the point of view of everyone. Based on that they can publish an exposure draft which is a first draft of what the standard will look like. Before publishing the standard, the IASB modifies it according to the feedback they will have received about this exposure draft. Concerning this new standard, because it is focused on a particular sector which is the one of the insurance companies, the Board has also performed two field works with several insurance companies. All of these reports and the information give sufficient knowledge so that a discussion about that matter with professionals of this sector is possible.

The core of this paper will then be partly the points of view from these professionals that have been interviewed. These will be shared in a latter section. The other major part of this paper is the feedback that actors impacted by this standard have given to the IASB. The Board has published this feedback, so this paper focuses only on the feedback concerning the transparency and the comparability and will then give a summary in a latter section. Through the observed feedback it will become obvious that not all actors share the same view and that it is very likely that some of them have completely opposite ideas. This partly depends on the geographical zone where these actors come from or even their role in the sector. To continue, the interviews and the feedback will be confronted to examine if these two point into the same direction. However, it will transpire that most of the time it is clear which opinion outweighs the other in terms of number of approvals around the globe. Together, the interviews and the feedback form an opinion that represents the sector.

After having presented the data that has been collected with the help of these persons and the information present in the feedback, they will be summarized mainly in terms of transparency and comparability to give an overview. Based on this summary, it will be possible to express a critical opinion and try to answer to the question of this thesis as to whether or not the IASB will reach its objective of publishing a standard that increases both the transparency and the comparability of the insurance contracts. This opinion is necessary since the actors have a different view on the topic depending on what concerns them the most.

After concluding the main analysis, the paper will take a step back and see what possible extension could have been brought to it. In this section some positions taken while writing this thesis will be defended. Then as discussion will revolve around the thesis an explanation of how the thesis has been written having a sustainable development view will be given, as well as an explanation on how the paper can be viewed has a tool for sustainable development. Finally, this paper will be concluded by giving a summary of what has been discussed and the main elements that this new standard is going to change. Also, a layout of the challenges that the companies will face with IFRS 17 will be shown along with discussing the opportunities that arise.

2. The situation before IFRS 17 and the new standard

This section will briefly illustrate the situation as it is under IFRS 4 and give a short summary of that norm. It will then explain why a second IFRS standard is essential for insurance contracts. As a result the main differences between IFRS 4 and IFRS 17 will be named since this is of interest for the thesis. Details however will be spared here. Indeed, what is of greatest concern is the point of view of the different actors of the sector since they are the ones for whom the new IFRS 17 is made.

As an introduction to this section, a small reminder of why an IFRS dedicated to insurance contracts is even needed at all will be presented. As it is suggested in the paper from Leflaive and Rognon (2013), the IASB recognized that the application of the general norms to the insurance sector would not be appropriate and would not reflect an accurate view of the insurance contracts economy. The main reason for that is that the line between service and investment is relatively blurry for insurance contracts. Regarding the service for instance, the recognition of the revenue is not easy to determine due to the evaluation of the risk that can vary very much throughout the life of the contract. Concerning the investment; the norms to apply are the financial instruments norms. Finally, the provisions are discussed in IAS 37. However, the IASB made a proposition in 2010 for including a marge for the risk in estimates of the provisions which failed, many involved actors did not agree with that proposition.

If an IFRS over insurance contacts is necessary, one may think that one could just lean on the existing norm, such as the US GAAP for example. Actually there are two reasons why the IASB decided not to base its project on the US GAAP norm. The first one is because the US GAAP includes only the insurance companies in general; it is not focused on the insurance contracts and the Board wishes to reach an homogeneous treatment for the similar transactions. The second reason is that this foreign norm uses fixed-in-time hypothesis and therefore the value of the contract is not evolving. That is another important point that the Board wishes to solve, which is called the “mismatch” between assets and liabilities.

2.1. IFRS 4

The IASB published a paper in the beginning of this year (2017) explaining that IFRS 4 was issued in 2004 as an interim IFRS standard and that it had two main characteristics. The first one is that it permitted companies to continue their accounting practices. The second one is that it focused on enhanced disclosure on the amount, timing and uncertainty of future cash flows from insurance contracts. This led to companies using a wide range of accounting practices for insurance contracts. Many different accounting models have therefore evolved according to the jurisdiction applied in these countries. This is where the differences in accounting come from. Some practices reflect an incomplete view of the insurance contract's effect since the contract reflects only the company's expectations when it entered into the insurance contract, without subsequently updating those expectations. Indeed, IFRS 4 states explicitly (Commission européenne, p. 393, §23-30) that a company is not required to ensure that its accounting policies for insurance contracts are reliable or relevant to the economic decision-making needs of users of its financial statements, such as investors and analysts.

The consequence of having few regulations on certain points is that limited information in the financial statements can lead, in turn, to narrow investments, ambiguity in reporting and ultimately defective decision-making. Another issue that is closely linked to that is the potential mismatch that occurs between assets and liabilities. Because under IFRS 4 an asset is valued at its fair value, one may imagine that it would also be the case for a liability. However this is not what happens with IFRS 4, the liabilities are indeed valued at historical cost. From this difference between the two valuation methods a mismatch is formed. Finally, there was also a lack of information regarding what the contract was made of and its classification in the IFRS text. Therefore, there are many types of insurance contracts that should not be having the same accounting models (Leflaive & Rognon, 2013).

These were the problems that the Board was facing. In order to solve them, the IASB started a project to harmonize insurance accounting practices across jurisdictions and to improve the relevance and transparency of companies' financial reports which was clearly missing with IFRS 4. This is the goal of IFRS 17. This January, the IASB stated that the new accounting requirements would provide more relevant and comparable information through two big pillars (2017). The first one is about using current estimates and up-to-date information about cash flows arising from insurance contracts. The second pillar is about providing more information related to the sources of profit or losses regarding what the companies do with the premium from the customers, and also more information relating to the nature of risks arising from insurance contracts. In order to achieve these objectives it will be observed what the main changes of IFRS 17 are that the Board wishes to implement.

2.2. IFRS 17

First of all, the different actors that will be impacted the most by this new norm will be named. Obviously, the most impacted actor will be the insurance companies since it is a norm dedicated to them. The investors and financial analysts will also be impacted by the norm in their way of valuating companies since the presentation of the financial statements should change, for a clearer one. Surely other actors such as regulators or auditors will be impacted too, but it is believed to be on a smaller scale.

IFRS 17 aims at targeting all insurance contracts as the norm actually mentions a definition of insurance contracts (International Accounting Standards Board [IASB], 2017, p. 7). It was slightly different for IFRS 4 that focused its application more on the insurance companies. It can therefore be concluded that IFRS 17 is willing to be more global, not excluding any segment.

As portrayed in the previous section, IFRS 4 was incomplete and the new norm's objective is to complete it with many different changes in the way companies deal with their insurance contracts. The focus here lies on five particular elements which have been discussed with companies' representatives. This will be helpful later for a better understanding of the answers that have been received through questioning the representatives.

2.2.1. The valuation methods

Most of the information in the following sub-sections come from an illustrative example of the new standard written by Vlaminckx, Vandeweghe and Lievens on behalf of Deloitte (2013) and also comes from the standard itself published by the IASB (2017).

It could be that the most innovative and most important change that IFRS 17 brings is the valuation methods. Method has indeed been written with a plural since there are actually three different methods and all three of them will be briefly described here. An insurance contract will either be valued through the Building Block Approach [BBA], either the Variable Fee Approach [VFA] or the Premium-Allocation Approach [PAA].

The BBA is the basic model that is applicable to all insurance contracts in scope and it is made of 4 blocks which will be detailed below. Basically the BBA could be summarized as such; an approach that calculates the present value of future net cash flows and adjusts it taking the risk liability into account. The result of this is called the contractual service margin [CSM] and it is also a new term developed for IFRS 17.

PV Cash Flows	-	RA Liability	=	CSM
Block 1 & 2		Block 3		Block 4

What happens in block 1 is that the sum of the future cash flows is computed. Cash in flows include not only premiums but also salvage and subrogation. Cash out flows mainly include claims, but also directly attributable acquisition costs at portfolio level for instance. Therefore the recognition of contracts is to be determined based on the earliest point in time of start of the coverage period.

The block 2 which is called time value of money is quite related to block 1 since it can be summarized as a discount rate to be applied to the future cash flows. The discount rate very much depends on the duration, the liquidity and the currency of insurance cash flows. The time value of money is however not needed when the contract has a short term duration of less than one year. These first two blocks together are called "Present value of fulfilment cash flows".

After computing this first part of the equation, insurance companies will have to perform risk adjustment which is block 3. That means that they will incorporate uncertainty, diversification and risk aversion. The reason why the risk adjustment is so important here is because it directly helps the users of financial statements. The risk adjustment indeed conveys information about the entity's perception of the effects of uncertainty about the amount and timing of cash flows arising from the contract. There is no prescription of a method to calculate this risk adjustment. However, most companies might use a cost of capital method in order for it to be comparable with the method from Solvency II. Regarding the topic of this thesis, the risk adjustment directly impacts the comparability between different insurance companies. Indeed, a higher risk aversion will result in a higher risk adjustment and that is translated into a decrease of this comparability between firms.

As written above, the CSM, component of the Block 4, is a brand new concept that has many characteristics. The main goal of the CSM is to eliminate "day one gains", that is to say when the premiums exceed the risk margin. Indeed, as it is consistent with IFRS 15 *Revenue from*

Contracts with Customers, the CSM consists of representing unearned profit in a contract as the IASB explains it in its Staff Paper of March 2014 (2014). The IASB also states that no gains are recognized in profit or loss at inception, because the entity has not yet satisfied any of its performance obligations. As a consequence of this reasoning, the CSM cannot be a negative amount. And because the CSM is supposed to eliminate "day one gains", it is equal to zero if the contract is onerous, which is obviously rarely the case.

Regarding the recognition of the CSM, it is due over the duration of the contract. This allows the spreading of profits on insurance contracts over the duration of the contracts. The use of the CSM depends on it is going up or down. When the CSM is going down then losses are recognized immediately. However, when the CSM is going up, then in this case the profits are firstly used to compensate previous losses, before a positive CSM can be built up again.

As the BBA is the basic model for insurance contracts, there are also two alternative models that were introduced above. The first model is the variable fee approach.

The variable fee approach is just another approach for valuing different contracts. This approach concerns only participating contracts that meet certain criteria. A participating contract is a contract where the insurer is required to hold underlying items in which the policyholder participates directly. As it is explained in a paper from June 2015 written by Ernst & Young (Ernst & Young, 2015), the proposition of the IASB is that the changes in the estimate of the future fees that an entity expects to earn from participating contract policyholders should be adjusted against the CSM, which were developed just above. These so-called fees, at inception, include the expected share of returns on the underlying items less any expected cash flows that do not vary directly with the underlying item. The criteria that make the participating contracts able to be valued according to the VFA are the following ones;

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items.
- The entity expects to pay a substantial share of the returns from the underlying items to the policyholder.
- A substantial proportion of the cash flows that the entity expects to pay to the policyholder are expected to vary with the cash flows from the underlying items.

As stated in the EFRAG paper from February 2017 (2017), the insurance contract needs to meet all these three criteria in order to be eligible for applying the variable fee approach and therefore be called “direct participating contracts”. It is likely that the participating contracts which do not meet these criteria will be valued under the BBA like most contracts. Using this approach, the CSM should be recognized in profit or loss on the basis of the passage of time. However, an accounting mismatch may occur when an entity uses derivatives to reduce economic risk. As shown before, changes in the estimate of the fees that the entity expects to earn are recognized in CSM, whereas the fair value movements in hedging derivatives are recognized in profit or loss (Ernst & Young, 2015). The main difference with the general model is that the accretion of interest on CSM in the general model is made via a locked-in rate and under VFA a current rate is used. Therefore the total liability is adjusted through the statement of comprehensive income.

Along with the VFA, the other alternative approach is the premium-allocation approach [PAA]. This approach is not likely to be used often by insurance companies since it is a very specific one. Indeed, the first criterion to meet in order to use such an approach is that the contract must last no longer than one year. It is not an obligation to apply this approach for the companies. They can still use BBA if they prefer, for instance if they seek consistency with discounted cash flows measures used elsewhere. One might say that this approach is rather permitted to make it easier for companies than required. The reason why a company would choose to apply the premium-allocation approach is because it is a simplified model. The approach provides a simplified way of measuring the insurer’s obligation to pay for future insured events covered by existing contracts.

The contracts eligible for being valued under the PAA are the ones for which the simplified approach would produce measurements that are a reasonable approximation to those produced by the building block approach as explained by Ernst & Young (2012). One of the reasons why this approach is simpler is because companies do not need to apply discounting or interest accretion in measuring the liability for remaining coverage. The measurement of acquisition costs should include directly attributable costs and the insurer should be permitted to recognize all acquisition costs as an expense if the contract is covering a period that is less than one year. Having explained that, it is therefore possible to establish a formula to value a short term contract using PAA. Its value would be valued as such;

Premium + PV Acquisition costs = pre-claims obligation at initial recognition

If any

To the premium received at initial recognition is added the expected present value of future premiums less the incremental acquisition costs. In short it means; the value of the pre-claims then reduced over the coverage period of the contract on the basis of the passage of time (Sheaf & Yeung, 2012). As it has been observed above, the value is named "pre-claimed" obligation since the premium-allocation approach is only applicable to pre-claims periods. That is why it is believed that this approach, however more simple, will be much less used than the others due to the fact there are many criteria to be met for insurance contracts in order to apply it.

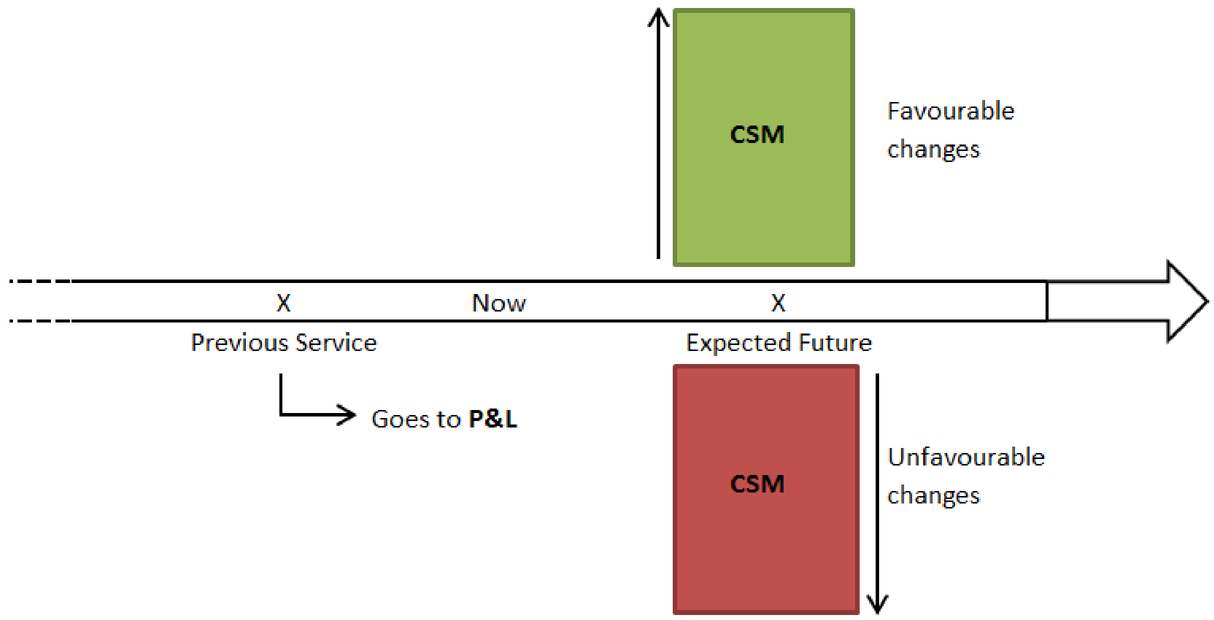
While applying the PAA or the BBA there is also an onerous contracts test that needs to be performed. This test takes place on a portfolio level and it aims at determining whether or not the portfolio of contracts is onerous, if it is expected to be loss making.

2.2.2. Unlocking the CSM

In the draft from March 2014 (IASB, 2014) the staff is expressing its wish to "unlock" the contractual service margin. It means that companies would be able to adjust the margin for differences between current and previous estimates of the present value of cash flows relating to future coverage or other services after inception, still with the condition that the CSM cannot be negative. The other difference between current and previous estimates that do not relate to future coverage should be recognized immediately in profit or loss. According to the feedback that the IASB received from its 2010 Exposure Draft, this would achieve a faithful presentation of the remaining unearned profit which is the main goal of the contractual service margin. The Board also gives other arguments for unlocking the contractual service margin such as;

- It would avoid the counterintuitive effects of a locked-in margin.
- The consistency between valuation at inception and subsequent valuation would be improved.
- It provides better information on the effects of changes in estimates in terms of transparency.

When the board talks about unlocking the CSM they talk about doing it for the expected cash flows. They would not do so if it relates to past and previous services, and there is no unlocking for that. Shown below is a graph representing when changes go to CSM and when they go to the profit and loss account;



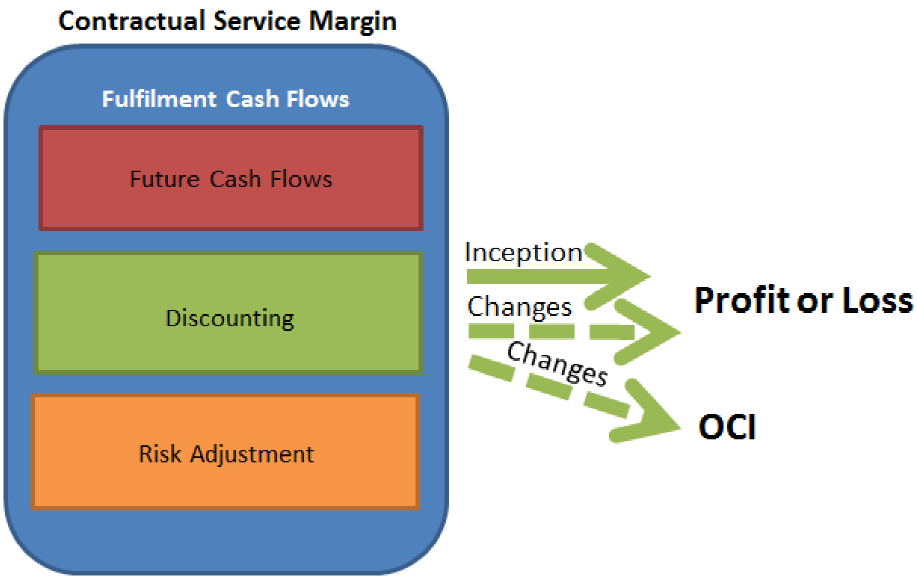
If this change is important it is because it is directly related to the recognition of the revenue via profit or loss. And as shown in this paper, the CSM is a major element of the building block approach. Just like the Board expressed its wish to unlock the CSM for changes in cash flow estimates, it also wishes to unlock the CSM for changes in risk adjustments relating to future coverage and future services. The same principles are applied; the CSM cannot turn negative and the changes in risk adjustments relating to current and past periods of coverage will be recognized immediately through profit or loss (Deloitte, 2014). On the one hand, the Board is concerned that having two margins may hinder the benefit given that the CSM will be unlocked for both changes in cash flows estimates and changes in the risk adjustments. On the other hand, the Board agrees that having an explicit risk adjustment figure will provide better information.

2.2.3. Split Recognition between P&L and OCI

A small part of this paper has already been dedicated to the recognition, regarding the CSM that goes to profit or loss according to the passage of time for example. This section will not be dedicated to revenue recognition per say. However, it will be closely related as the fact that not all measurements will go through the profit or loss account will be discussed here. Indeed, as

Darrel Scott, who is an IASB member, explains in its presentation (Scott, n.d.); the IASB is giving the possibility for insurance companies to present the effect of change in rate of fulfilment cash flows in the other comprehensive income [OCI]. Here the changes to the time value of money for future cash flows are addressed, the block 2 of the building block approach that was already discussed in the previous section.

In order not to get confused, there is a distinction to make between the unwind of the time value of money that is expected at initial recognition and the changes to that time value of money for future cash flows. This paper is only concerned with the changes here, the unwind of the time value of money is indeed recognized in the profit or loss account as it is computed at initial recognition. It is the future changes in the time value of money that is recognized in other comprehensive income. These changes are mainly due to changes in the discount curve which is used to compute the fulfilment cash flows. In the introduction of this section it has been stated that the IASB is giving the possibility to companies to recognize it in the OCI, because it is indeed optional. Many companies are used to recognizing these changes in the P&L and they will therefore be able to keep on doing so if they prefer. As matter of fact, here is a small graph that represents the choice that is possible for these companies;



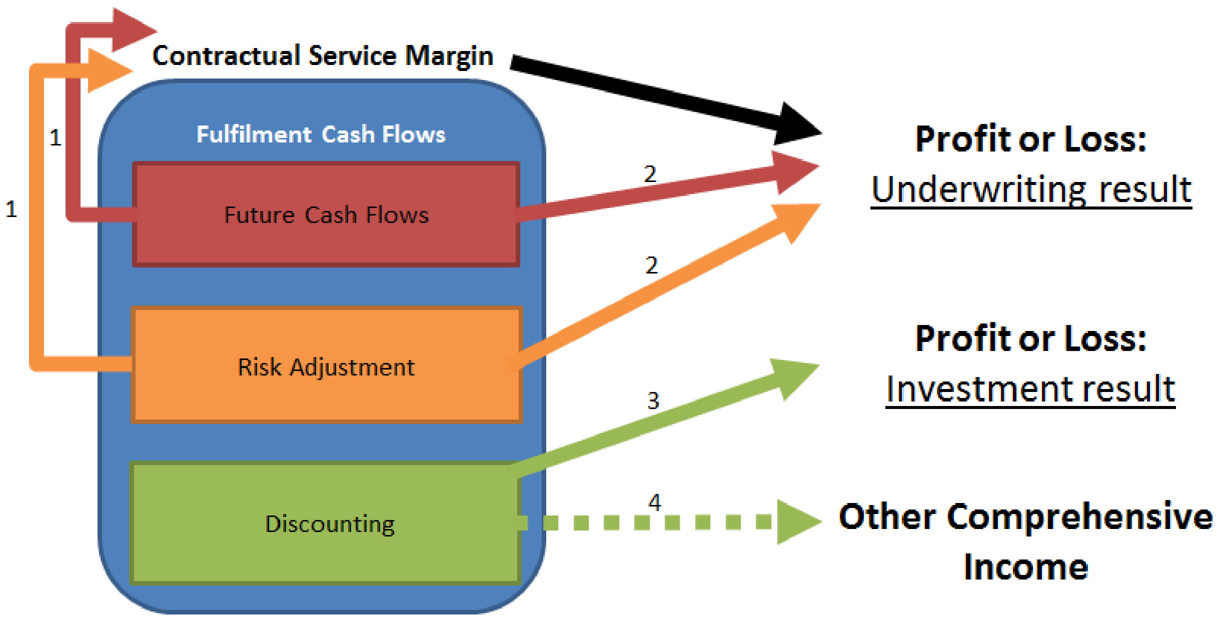
On this graph it is not exactly written where future cash flows and risk adjustment are recognized because it will be the topic of the next section. The idea behind recognizing it in the OCI is that the volatility of the market interest rate will therefore not impact the entity's profit or loss since the time value of money unwinds over the life of the contract. This is why it is often called the

OCI solution. It is the belief of the IASB that using the other comprehensive income would enable users to better distinguish the effect of expected future cash flows from short term effect of changes in market rates. That is why the OCI is needed, because the profit or loss account is supposed to reflect a long term image of the results of a company.

One last important remark that Visser and McEneaney highlight in one of their briefing notes (2015) is that the accounting policy that the insurance company decides to use has to be the same for groups of similar portfolios. Therefore, even though the companies have the choice between profit or loss and OCI, they have to be aware of the fact that it is a relatively pervasive decision.

2.2.4. The Earned Premium Approach

After having previously analyzed different recognition techniques such as the OCI solution, and after having discussed the three valuation methods, this paper will now discuss the earned premium approach which tells how the companies should display their statement of comprehensive income. It is a brand new approach made especially for IFRS 17 and therefore it is hard to have an explanation based on any previous model. In order to make it easier and to synthesize it, here is a graph quite similar to the previous one, except that here it has been added where the rest of the components should be recognized;



1) If these changes are related to future coverage and future services.
2) If these changes are related to current and past periods of coverage.
3) The unwind of the Time Value of Money expected at initial recognition.
4) The changes in the Time Value of Money for future cash flows. (Optional)

This graph is largely inspired from the explanation of Darrel Scott and it mostly tells where the changes in estimates, which are revalued at each reporting period, should be recognized. It also reflects how the insurance companies will lay out their statement of comprehensive income (Scott, n.d.). As it can be seen on this graph, there are three different components of the statement of comprehensive income which is very different than what companies have been used to. In the past everything used to be under a profit or loss account without distinction.

The first component is the underwriting result where most of what could be called the "operational result" is located. This component should be consistent with other industries. Actually it would be more simple to explain it this way; the only thing that is not in the underwriting result is the unwind of the time value of money at inception, which is in what they now call the investment result. These two components represent most of the result. The last component is the one that has already been developed in the previous section. It is where the changes in this time value of money may go if the companies decide to take that option proposed by the Board. It would then be located under the other comprehensive income.

The part that goes in the OCI should reconcile the costs that are presented in investment result with the current view of performance. The biggest change with this earned premium approach could be the recognition of the premiums that is spread over time of the contract with the use of the CSM. By doing this, the IASB wishes to be in line with its IFRS 15 *Revenue from Contracts with Customers*. The premium is therefore not seen as an income, since the service has yet to be provided, but is seen as a deposit to pay future claims and expenses.

Without any further analyses it can already be seen that the main advantage of using this new approach is that it will certainly increase the comparability between firms using the underwriting result as a comparison point. The volatility of the markets will be reflected in OCI and therefore should not impact the comparability (Vlamincks, Vandeweghe & Lievens, 2014). The IASB believes that this current value measure of an insurance contract provides the most useful information about insurance contracts in the statement of financial position. However, this new approach will have the disadvantage to be more complex than before. It does indeed require a decomposition of the building block approach and many components are involved.

2.2.5. Disclosure required

The last of the main important changes that IFRS 17 will bring to insurance contracts is the disclosure that the companies will be required to put in place. As a general overview, these disclosures will be much wider than before. It is sensible if one looks at all the changes analyzed in the previous sections and how the IASB wishes to separate the presentation of the results, and also the different ways to value a contract. In regard to the exposure draft from 2013 of the IASB (2013) there are three main categories where the company has to disclose relevant information;

- Provide detailed analysis of changes/movements in insurance liabilities during the covering period of the contract.
- Significant judgements in applying the IFRS standard.
- A disclosure for the confidence level that the total insurance liabilities represent.

This is also what KPMG discusses in a paper they published (2017). According to them, the most important disclosure is the third one that concerns the level of confidence of the company. That is to say the nature and extent of the risks arising from contracts as it is stated in the IASB's exposure draft. Regarding the subject of this thesis, it is supposed to bring greater transparency to an area of reporting that was used to disclosing much information. This may lead the insurance companies to review the way they communicate with their investors and maybe change their messaging. The idea of the first point is to keep track of what happens between the opening balance and the closing balance.

Talking about balance sheets, in some papers available, such as the illustrative example from Deloitte (Vlamincks, Vandeweghe & Lievens, 2014) for instance, they seem to say that it is likely that in practice the insurers will need to maintain two sets of balance sheet data: one at a current interest rate and one at a locked-in rate. This is due to the fact that they will need to provide much more transparent information and they will have to communicate it better to the users of the statements of financial position.

Under the second point, all the disclosures that explain the essential reasons why the valuation is such for this type of contract can be found. The company will for example have to provide information regarding the valuation methods it is using; also it will have to tell the users the inputs that are used to estimate;

- the risk adjustment;
- the discount rates;
- the pattern of recognition of the contractual service margin; and
- any investment components that are not accounted using IFRS 9.

This last point represents all investment components that are not distinct and cannot be issued by the company as a stand-alone financial instrument that is initially measured in accordance with IFRS 9. The company will also have to display the effect of changes in the methods of valuation if they decide to change these methods, together with an explanation of the reason for that change if these changes produce material impacts on the financial statements.

3. Interviews with insurance professionals

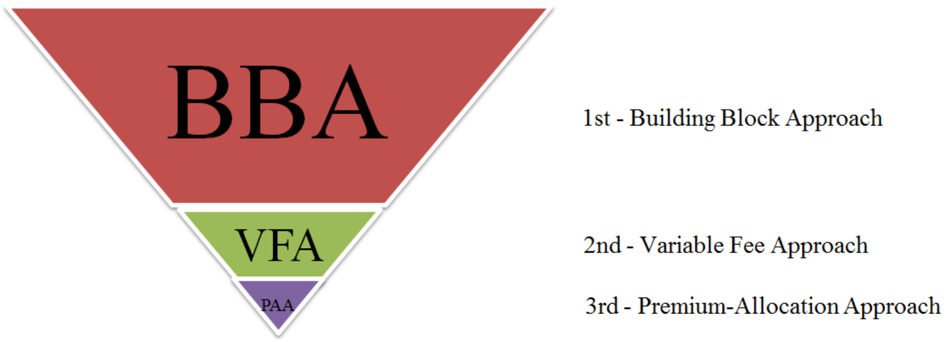
Now that the previous section explained the five main changes that IFRS 17 will bring to the insurance industry, it is now easier to understand the different opinions of each professional of this sector that have been interviewed regarding these five topics. For a matter of clarity, the opinion of one insurance professional about these topics will first be presented, and then the paper will move on to the second person and further. In total, four insurance professionals have been interviewed and there was at least ten times this amount of refusal received or no response to the enquiry. It is understandable regarding the fact that the standard is not, or at that time was not, published yet. According to the responses received, this was the main reason why the persons or companies that were asked for interviews had to refuse it. It would seem that due to the fact that the IASB is giving a relatively long implementation period, most of the insurance companies have not yet done anything regarding this new standard. Fortunately enough, the persons who accepted to talk about this come from various sectors, always relating to insurance companies, and therefore this has enriched and strengthened the research.

3.1. Interview - AG Insurance

The first person that got interviewed was a professional working for AG Insurance, the market leader in the Belgian insurance market (Ageas, n.d.). This first contact is therefore a representative of a firm acting as an insurance company. The person questioned is working at the financial reporting development on the implantation of IFRS 17 for AG Insurance. He kindly accepted to meet and answer a few questions, and it is important to know that this person only expressed his own opinion and did not share the view of AG Insurance in any way.

<u>The valuation methods</u>

Regarding the first question about the three different valuation methods proposed by the IASB and the change that it brings, he first explained which of these methods will be used the most and why. According to him all of these three methods already exist, they are only computed in a different way. Here is a pyramid representing how often companies will use these methods;



The building block approach will be the model that will be used the most, which is consistent with the view from the Board that introduces it as the general model. A main reason for the circumstance that this would be the mostly used model is also the fact that the other two models have restrictions in order to be applied, as seen in the previous section where the three models were described.

In the order, the second model would be the variable fee approach and according to this interviewee, this method would already be much less used than BBA. It would be less used firstly because this method can only be applied to participating contracts, and secondly because there are still three other criteria that have to be met.

Finally, the least used method should be the premium-allocation approach, for which he assured that it would be the easiest approach. However, this is not a mandatory approach. The problem for companies is that this method is only possible to be applied for very short term contracts and the interviewee expressed that because of that it would be almost never used.

So all in all the distribution between these three approaches would not be equal, and would not be close to equal either. Instead, the distribution might be more something close to; 90% - 8% - 2%. This person seemed to say that the advantage of these approaches is that they look relatively alike with the three approaches already used under Solvency II and that the companies should be able to recycle these old practices while implementing the new ones. These new approaches should however be more in line with the wishes of the IASB to bring more information for the user of the financial statements.

<u>The CSM and its unlocking</u>

The CSM was a huge point of discussion in the interview with this first contact. The issue is that the CSM is measured at inception using a certain interest rate, as it was previously shown.

However, this interest rate is locked-in and does not change over the period of the contract. Now however the changes are recognized.
It is actually the difference between the amount measured at the locked-in rate and the amount measured at the current rate that is recognized in the statement of comprehensive income. The point is that by recognizing that, there might be some changes over the period of the contract. It would be incoherent according to the interviewee to keep this interest rate unchanged through the whole duration of the contract. Under Solvency II this interest rate is updating throughout the life of the contract, which is more market-coherent.

In the view of the Board, using a locked-in rate would first of all be in accordance with its IFRS 15 Revenue from Contracts with Customers. Since the CSM would now be treated similarly to a pre-payment, it would then improve the comparability of profits for services delivered for insurance contracts. Furthermore, using this locked-in rate for determining the present value of cash flows to unlock the contractual service margin is best in order to separate the underwriting and the investment result, which, as discussed, is part of the new presentation of the statement of comprehensive income.
As the Board declares in its staff paper from July 2014 (IASB, 2014), if an entity were to use current rates instead of locked-in rates, some changes in discount rate would be reported in the underwriting result through the release of the contractual service margin, even though these changes obviously ought to be treated as investment results according to the new segregation of the statement of comprehensive income made by the Board.

Concerning this thesis, using a current rate would then decrease the comparability of the results reported by entities that issue insurance contracts. This increase of comparability is, as a matter of fact, brought by this separation of results using the underwriting result to compare the operating results between firms. Moreover, in its staff paper from March 2014 (2014, §24.(b)), the staff explains that according to them, unlocking the CSM would have the effect to avoid the counterintuitive effects of a locked-in margin. It could therefore be seen the other way around; these two effects contain each other. The last reason expressed by the Board according to Darrel Scott (Scott, n.d.), is that the contractual service margin is not recognized as a cash flow and therefore the IASB concluded that it cannot be remeasured and that the discount rate should be the rate determined at inception.

Split recognition between P&L and OCI

Regarding the new OCI solution presented by the IASB, which is that companies would now be able to choose about recognizing the effect of change in rate on fulfilment cash flows in either OCI or profit or loss, the interviewed person did not express a clear opinion concerning the topic of the thesis. Indeed, for most of these changes it is quite hard to foresee what is going to happen and how the industry will use these new possibilities. However he did give some information as to how he saw things would develop. According to him, the building block approach is based on historical cost and the variable fee approach is managed as if it was valued at fair value. Also, under this new IFRS, the changes of the interest rates would therefore not be recognized by profit or loss, and neither corrected using the later account. This view is consistent with the research that has been done and explained in the second section of this paper.

The Earned Premium Approach

In order to have better view about this new layout approach, the reasoning is based on the illustrative example from Deloitte (Vlaminckx, Vandeweghe & Lievens, 2013) which in turn is based on the Exposure Draft from the IASB. This graph has also been presented to the interviewee. Here is the illustrative example;

IFRS STATEMENT OF PROFIT OR LOSS AND OCI	1	2	3	4	5	6	7	8
Insurance contract revenue	91.512	88.673	85.854	83.337	80.003	76.982	73.963	70.950
Expected claims	10.348	9.700	9.031	8.330	8.235	7.392	6.513	5.601
Allocation of the premium to recover directly acquisition costs	28.595	27.508	26.452	25.426	24.430	23.462	22.521	21.606
Allocation of the premium to recover fulfilling contract costs	9.795	9.593	9.396	9.202	9.871	9.647	9.427	9.211
Provided services (release of the contractual service margin)	41.621	40.723	39.828	39.235	36.325	35.341	34.364	33.393
Change in risk adjustment	1.153	1.150	1.147	1.144	1.142	1.140	1.139	1.139
Incurred claims	-10.348	-9.700	-9.031	-9.163	-8.235	-7.392	-6.513	-5.601
Unexpected change in insurance liability (profit sharing)	4.218	4.420	4.168	4.666	2.559	1.418	626	0
Losses at initial recognition and changes of onerous contracts	0			0				
Operational cost	-39.390	-38.101	-36.848	-36.527	-35.301	-34.108	-32.947	-31.817
Directly attributable acquisition costs	-28.595	-27.508	-26.452	-25.426	-24.430	-23.462	-22.521	-21.606
Other directly attributable costs	-9.795	-9.593	-9.396	-10.101	-9.871	-9.647	-9.427	-9.211
Non-attributable costs	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
UNDERWRITING RESULT	**45.992**	**45.292**	**44.143**	**42.313**	**39.025**	**36.900**	**35.130**	**33.532**
Interest income bond	220.924	220.924	220.924	220.924	220.924	220.924	220.924	220.924
Interest income on cash or interest cost on loan	0	79	208	401	272	153	57	-5
Interest cost on contractual service margin	-4.892	-4.264	-3.641	-3.023	-2.286	-1.704	-1.129	-561
Interest cost on insurance liability (premium)	-151.550	-150.481	-149.447	-148.448	-147.290	-146.018	-144.784	-143.589
Interest cost on insurance liability (profit sharing)	-7.489	-8.169	-8.978	-9.890	-10.802	-11.757	-12.586	-13.343
INVESTMENT RESULT	**56.993**	**58.090**	**59.065**	**59.964**	**60.818**	**61.599**	**62.481**	**63.427**
PROFIT OR LOSS	**102.986**	**103.381**	**103.208**	**102.277**	**99.843**	**98.499**	**97.611**	**96.959**
Fair value change of assets (OCI)	-90.197	-609.095	465.085	-29.750	8.353	52.170	86.614	116.820
Effect of discount rate changes in insurance contract liability (OCI)	79.407	71.536	52.881	23.520	-8.684	-45.791	-74.254	-98.615
TOTAL COMPREHENSIVE INCOME	**92.196**	**-434.178**	**621.174**	**96.048**	**99.512**	**104.878**	**109.971**	**115.165**

According to him, there are many components accounted under the “Insurance contract revenue” caption, such as the discounting of the contractual service margin. This caption contains components that cannot be found today if one looks at the profit or loss account of insurance companies. Furthermore he said that there was no link anymore between the unearned premium and the result. Indeed, the presentation of the premiums is much different under local GAAP. Regarding what the IASB is proposing, the premium will now not be seen as an income anymore but more as a deposit to pay future claims and expenses. Still, this person insisted on the fact that there was no link anymore with local GAAP and therefore not possible to immediately see to what the new captions under IFRS 17 used to correspond under the local GAAP. The difference between these two is simply too significant.

Disclosure required

The interviewee sees the disclosures required by the Board as being closely related to the newly earned premium approach. According to him, the reason why so many new disclosures are required is because the earned premium approach itself requires many new implementations and that needs to be explained to the reader of the financial statement. He did not see how these disclosures could badly impact the view of the reader. According to him, more information means more transparency. Concerning the insurance companies, he claimed that they will need to collect and store much more data than they used to do in the past. Concerning the layout itself, even though he agrees that the valuation methods are not so different; the layout of the statement of financial income is quite different than what is used under local GAAPs.

As AG insurance is an insurance company, it is understandable that its interest in the new norm lies more with the valuation methods because this is where the real challenges might lay for them. Even though, these methods are closely linked to the profit or loss account and its new aspect, which insurance companies have never used before. Because they are the ones directly concerned by this new standard, the point of view of insurance companies on this topic is essential in order to analyze the two aspects of the standard developed in this thesis.

3.2. Interview - National Bank of Belgium

An expert working for the National Bank of Belgium has also been interviewed. This contact is therefore representative of a firm acting as prudential controller. He is working as head of governance, accounting and auditing, also working for the prudential policy and financial stability department. The role of the NBB in the insurance sector is mainly to check both profitability and solvency of insurance companies, and in a larger scale the NBB does the same for the banks. Until now, they have been checking this solvency and profitability using Solvency II since it is the norm to be applied in Belgium. It is a risk based approach for which the valuation is done fully at fair value, unlike the IFRS standard.

<u>The valuation methods</u>

As previously stated, these three new valuation methods could be relatively similar to the ones companies are already using right now. However, the scope of the cash flows used is different since under the new IFRS standard only the insurance contracts will be recognized for valuation of the fulfilment cash flow. It is therefore more representative of the insurance business, and less dependent on other activities of the company. The contact claimed that the wish of the IASB was indeed to publish a global international standard that could be used in every country.

However one of the problems encountered is that different regulations are currently used by countries around the world, at least concerning insurance contracts. Indeed, some markets may use a fair value method while others are using an historical cost based approach. If one looks at the Anglo-Saxon models, they are using fair value methods much more than in Europe for example and that limits the comparability between companies from these two different markets. Therefore, if there would be only one main accounting policy as suggested by the IASB, it would be hard to decide which one to choose. Because of that, the response of the Board is quite understandable.

The Board proposed three different approaches in order to try to satisfy all the actors. Moreover, the general model proposed by the IASB is supposed to be focused on comparability and to best reflect the income coming from an insurance contract, therefore it is not developed to favor any market in particular. According to this person who is used to working with insurance companies, the proposal from the IASB of the three valuation methods is good for insurers because thanks to that they are still quite flexible on their valuation methods.

<u>The CSM and its unlocking</u>

According to the interviewed it is logical to use the contractual service margin in order to get the results more homogeneous, as it represents best how the company is earning its revenue throughout the life of the contract. Actually it would seem that countries such as Belgium, France and Germany are favorable for this unlocking because it would permit firms to avoid too much volatility on the short term due to markets. Regarding the changes in risk adjustment that can go to the contractual service margin in order to unlock it, it would have been unwise to make this risk adjustment change go through profit or loss. It would especially be bad for long term business and that is the case for most insurance contracts where most of them can last decades. For that aspect of the norm, the interviewee agrees that using the change in risk adjustment in such a way is in line with the view of the Board of reflecting the economic reality of the insurance contracts.

Split recognition between P&L and OCI

What goes to profit or loss account remains a big question mark for the interviewed person, since it is completely new from what companies used to deal with under the local GAAP. It was not that the IASB did not give enough information about what they expected to be in the profit or loss account. The question mark lay because this person does not know how the companies will react to such a change and whether or not the IASB might have to adjust its standard after some years if the insurance companies cannot deal with this new approach efficiently. He wished to inform that the initial idea was to value everything at fair value. However it had become more difficult due to the crisis at that time to make everything go through profit or loss because of the volatility on the markets. That is how the IASB found the idea of the OCI solution. This solution gives the possibility to insurance companies not to be directly affected by the volatility of the markets and therefore increases the comparability of companies thanks to the underwriting result.

The Earned Premium Approach

Regarding the approach that companies will have to use for laying out their statement of comprehensive income, his comments were quite similar to the ones from the interviewee from AG Insurance. He also agreed that the difference between IFRS 17's Earned Premium Approach and the local GAAP was significant. Apparently the goal of the IASB would be to get an approach that leads to a result as uniform as possible, meaning that this result spread over the duration of the contract must not be so different from one reporting period to the other. Here he refers to the amounts under the "*Insurance contract revenue*" caption that was displayed in the previous table. Indirectly, the same effect should be expected from the underwriting result, since the volatility can be captured by the contractual service margin or the other comprehensive income. In terms of recognizing the premiums, what matters to the national bank of Belgium is that there is only one methodology being used. Because this last condition is met, it can be said that the new approach is efficient and represents a good chance for increasing the comparability.

Disclosure required

The disclosure is an essential part for the national bank of Belgium. Indeed, the bank is an actor assuring that the concerned companies do respect a prudential code and one of the three pillars of this code is about public disclosure. Concerning the current disclosure, it is interesting to notice that the insurance companies now have to publish a risk report that will no longer have to be published under IFRS 17. At least not as such, but the information about the risk and the confidence level of the entity should be displayed somewhere still, as it is explained in the exposure draft from 2013 (IASB, 2013).

According to this person from the national bank of Belgium, once the standard will be published and when companies will have to use it for displaying their annual accounts, it might be that companies publish their annual accounts both under Solvency II and IFRS 17 which means they might have two different annual accounts. If they may do so it is because today they are using Solvency II and they have already all the data to use it, therefore they might just keep on doing so, especially if it means that the reader can understand better the new IFRS layout when comparing it to the layout from Solvency II.

When the discussion turned to the potentially better transparency under IFRS 17 thanks to all these disclosures, according to him it would seem that IFRS 17 would not be as transparent as Solvency II. However, he affirmed that IFRS 17 is very transparent already, and that there is no denying that. The reason of this transparency is the split between OCI and profit or loss which makes it easier to understand what really impacts the revenue of the company. Also, the contractual service margin is helping the standard gaining transparency thanks to its way of spreading the revenue, therefore the premiums, throughout the whole life of the contract. The interviewee also appreciates the fact that, as a consequence to these three valuation methods that are proposed, the companies concerned by the standard will have to disclose information regarding their valuation techniques, such as explained in the exposure draft from 2013 (IASB, 2013).

All in all, the national bank of Belgium itself is not impacted so much by these measures as such, but it has to be aware of the changes that will be made in order to best advice insurance companies, and also to be able to implement new prudential controls if needed according to the new standard. The national bank is especially interested in what happens to the risks as the interviewee has explained it, and most of all the exposure to this risk. Another aspect that they pay attention to while analyzing this new IFRS standard is the fixed capital and how they will be impacted. This is why the national bank is paying more attention to the direction of the changes in the disclosures imposed to these companies. It is therefore an indirect actor of this sector, which has an overall view of what is happening thanks to its central position.

3.3. Interview - Assuralia

The next interview involved representatives from Assuralia. These two men were both closely following the IFRS 17 project. Their interest in following this project lays in the fact that Assuralia’s role is to protect the interests of insurance companies. One of the many ways to get there is by trainings, and for that they have to know in advance what the implications of the new standard will be.

<u>The valuation methods</u>

One of the first things they wanted to highlight is the fact that because of these three new different methods of valuation, insurance companies will have more complexity to deal with these computations. The reason is that they will have to collect and stock much more data than before and according to them, all of this data might lead to confusion in the application of these methods.

As they were talking about the three methods, they agreed that the premium-allocation approach, which is only restricted to short term contracts, was actually not so different than the building block approach. Indeed, as previously seen and as it is explained by Ernst & Young (2012), this method can only be used if the company obtains a result that is a reasonable approximation to what it would have obtained using the building block approach. Now regarding these two approaches, the two experts were not convinced that using them would be so different then what the insurance companies already use today. This is in line with what other interviewees have declared regarding the three valuation methods of Solvency II which were quite similar to the ones from IFRS 17.

Apparently, it seems that most companies will only be using the building block approach and will not bother much with the choice they have between the three approaches. By using one approach only they would be able to always use the same formula and they would gain efficiency this way. Also, most companies are already using what would today correspond to the building block approach under the local GAAP; therefore they do not see any need to change that method.

The CSM and its unlocking

The experts' personal opinion is that for now unlocking the contractual service margin is a good thing for insurance contracts and it is sensible regarding the wish of the IASB. It is also what most companies would think. However, they insist on the fact that this new measure is too new and it has become very complicated lately to be able to foresee any result of its implementation just yet. They do not exclude that some modifications might be made about this measure in the future, due to the fact that it might be quite complex for small entities to put it in place.

However, these comments do not impact the fact that this decision of unlocking the CSM is positive regarding the reflection of the economic reality of an insurance contract. Concerning the contractual service margin in itself, they claimed that it was essential for insurance companies to have such a tool that spreads the revenue of an insurance contract over its remaining life time, as they insisted that the first goal of the CSM is to inform the company about the expected income for the years that are a coming. And therefore, when the contract is over, the contractual service margin will be equal to zero.

Split recognition between P&L and OCI

According to them, the use of this split recognition between the profit and loss account and the other comprehensive income will very much depend on the countries and the current regulations in these countries. For instance, it can already be said that it is most unlikely that the Northern countries will use the OCI in order to account the changes in time value of money because they have a strong tradition of using the profit or loss account. However for most of the other countries there is no reason why they would not use this OCI solution.

The Earned Premium Approach

As they have mentioned before, they repeat here that the Belgian profit or loss is quite transparent. Furthermore, the profit or loss that was described under IFRS 4 was very easy to use. Concerning the computation of the best estimates that go under the underwriting result of the earned premium approach, it would seem to be quite complicated because everyone has its own technique and formula. The IASB does not give sufficient guidelines about this factor, which will result in a lot of different computation methods. Most of the time, the companies are not transparent regarding these best estimates formula and they do not like to communicate about them.

Disclosure required

Both experts did not have much to say about the many new disclosures, except that they were going to bring a lot of transparency to this standard, which is not surprising. It would be hard to fight against the fact that more disclosure would reduce transparency, but what is also interesting is that they seem to link the disclosure with the earned premium approach.

Due to the position of Assuralia, the two interviewees were often discussing with CFO's of insurance companies. They have found out that these CFO's were not so convinced by the transparency that would bring IFRS 17, in opposition to what the contact persons may say. It is one of these factors that can only be examined in effect once the standard is published, because until companies do not share these information it is hard to say if it will help the sector or not. This is especially because the insurance sector is so different than many other sectors.

In general the two interviewees were quite satisfied with the new presentation of the statement of comprehensive income, and thanks to that they are in a positive attitude towards the objective of the Board about firms having more comparability. It was important to have the point of view of Assuralia since the representatives of the company are in a direct dialogue with insurance companies, and they can gather the information from all those companies and share it to an audience.

3.4. Interview - KBC

An interview with the company KBC has been performed. The person interviewed is a Domain Controller and project leader of IFRS 17. KBC is a bank and an insurance company; therefore it is used to being impacted by new IFRS standards. According to her there is clearly a lack of comparability and transparency under the current IFRS 4 and that is why they need a new standard.

The valuation methods

Regarding the valuation models, she appreciates the fact that there are three of them even though, again, the main one is the building block approach and the two others will not be used so often. The real advantage here is the optional use of a premium-allocation approach if insurance contracts meet certain criteria, but as long as the contract met the recommended criteria companies can choose between three methods of valuation, which should be helpful for companies. Related to this, she agrees that IFRS 17 is definitely making some new steps towards more comparability, however regarding these valuation methods she does not think that the Board will reach its objective. Also, according to her the life insurer will be more impacted than the non-life insurer.

The CSM and its unlocking

The interviewed associates the use of the contractual service margin through the whole contract and the fact that one can unlock it to with the factor of transparency. According to her, this new presentation is likely to bring new ways of seeing how to deal with an insurance contract on the long term, concerning its future expected revenues and the fact that they can vary. She states that it makes sense to account the changes in best estimates in the contractual service margin that will spread these changes over the life of the contract into the profit or loss. She hopes that by following what the IASB is suggesting about the CSM, the profit or loss account of insurance companies will no longer be dependent on the volatility of the market.

Split recognition between P&L and OCI

The representative approves the OCI solution presented by the Board and thinks it would be best if companies would use it instead of making these changes go to the profit or loss account. Using it, the results of companies would better reflect the core business of insurance companies. In the insurance sector where, for most contracts since the last decades, it is essential to have a long term view about not only the profit or loss account but also the statement of comprehensive income, the OCI solution is helping to reach that. According to her, recognizing some changes in OCI helps the standard being more accurate regarding what the core business of the company is.

The Earned Premium Approach

Regarding the new earned premium approach, the interviewee appreciates that it is so well divided in order to make it clear what component should be allocated to what part of the result. Actually, one could say that now the insurance revenue is not based on its revenue any longer. With the new IFRS 17, the income of the companies will be based on deposit to pay future claims and expenses. She seemed to say that this approach should look more complicated at first, but then if one looks more closely it should be better interpreted from readers of financial statements.

Disclosure required

The interviewee was not concerned much about the disclosures that the company will have to display when the new standard is used. Because KBC is an insurance company, they are only concerned about how to display the information and how to gather data. As to how the readers of the financial statement will perceive it, the controller institutions have a greater concern about it for instance. She recognizes the fact that all the disclosures regarding the valuation methods and how the companies have found these amounts are going to increase the transparency from a reader's point of view.

The interviewee from KBC had a quite negative opinion of this new standard. Actually, her opinion was focused on the fact that one of the main goal of the IASB was to give more comparability to this industry. However she says that they have not achieved it. She believes that the standard will need to be updated and corrected before it can truly achieve this goal. As to what concerns the transparency, she was more positive, saying that both the different methods and the disclosure are efficient tools to reach enough transparency.

4. Opinions expressed to the IASB

4.1. The field works

After the publication of its revised exposure draft in 2013, the IASB has done two field works which consisted on evaluating whether or not the measures of the new standard could be applied under normal conditions. The twelve participants of these field works were big insurance groups around the globe. A list can be found in the staff paper presenting the methodology of this external testing (IASB, 2016).

These field works mainly aimed at identifying the different troubles that insurance companies might encounter as they implement the new standard. After analyzing the most recent field work which was made in 2016 between August and October, here are a few elements which have not been developed before and they are not central to this thesis. However since it is about the transparency of the standard it is worth mentioning it.

As it has been written before, it is not a central point to this thesis therefore this paper will not go into too much explanation but only the basics will be developed. Under IFRS 17 regulations, insurance companies will have to group the contracts they have, either by size or by year or other criteria, these criteria can be quite blurry. This grouping is supposed to make it easier to understand what kind of contracts the company holds and how much all these types of contracts are valued. The IASB was concerned by the number of groups that the companies would have and how they would implement this aggregation of contracts. Therefore, in this field work (IASB, 2016) the staff asked the test participants to assess the minimum number of groups they would need in order to meet the requirements for measuring the contractual service margin.

All participants responded that this number of groups would be very high and that it would require excessive granular calculations. Actually, they expected an even higher number of groups than what they have obtained. Also, these participants want to express their opinion that more granular information may not necessarily mean better quality information. According to these companies, the depiction of financial position and the performance of an entity may lose its relevance if the entity reports too much granular information.

However, only a few of these participants stated that a too granular level for grouping contracts will result in voluminous disclosures in the financial statements. They wished to warn the Board that much disclosure would not only be useless but also inappropriate and having a negative impact for the user of these financial statements. Another aspect that they highlight is that it would be difficult to explain to users why certain contracts are grouped together and not others, because the criteria of grouping are quite vague. On a portfolio level however, there would be smaller operational issues because of the higher aggregation of contracts. According to their beliefs, the objective of this aggregation of contracts is to clearly separate the profitable contracts from the onerous or potentially onerous contracts. If it is so, the idea of the participants is that this objective could be met more simply.

4.2. Feedback of the exposure draft from 2013

In 2013, the IASB has published its revised exposure draft, which is the modified version of the exposure draft from 2010. The modifications were driven by some 194 feedback from different companies that are concerned by this standard. In this section the feedback that concerns this thesis will be summarized. Then it will be analyzed whether or not this feedback match with the comments received during the interviews that have been performed.

As an overview, the staff comments in its staff paper regarding this feedback (IASB, 2013) that respondents were in general happy with the way that the IASB has answered their feedback from 2010 with the revised exposure draft from 2013. Most of them believe that there has been much improvement in comparison with 2010. However, according to many respondents, the current proposal would still not result in a faithful representation of insurance contracts. As stated in the staff paper that summarizes the feedback (IASB, 2013), most of the users of financial statements do recognize that need for change to the accounting for insurance contracts.

Their first reason is the lack of comparability which can be observed between different insurance institutions having different jurisdiction that results in different accounting requirements. This is especially the case under IFRS 4 *Insurance Contracts* which permits the use of many accounting bases to measure these contracts. This lack of comparability might also occur within the same company since they might use many accounting practices and therefore many different accounting models for the contracts. Their second reason is the lack of transparency in the financial statements mainly because it is difficult to understand where the profit comes from for an entity issuing insurance contracts. But also because of the fact that information is not updated and therefore not published on a timely basis as it should be the case.

4.2.1. Views on current, market consistent information

The model proposed in the exposure draft from 2013 is mainly current, market-consistent based, and so is the information. Because of that, some users are expressing some concerns. According to them, a market-consistent model would not represent faithfully the business for insurance entities. They believe that as insurance contracts are long term engagements which are therefore quite stable, they should not be affected by short term market fluctuations as it would have been the case if the IASB had decided that insurance liability should be discounted using current interest rate. Therefore they favor a locked-in interest rate at inception which would also be easier for projections. This is probably because of these concerns that the IASB has decided to use a locked-in interest rate for discounting cash flows, but still applying an OCI solution for changes in the time value of money.

There are also some respondents who think that IFRS 17 should first have a market-based model where such short term fluctuations can be seen. This is in line with the opinion that the interviewee from AG insurance has expressed during the first interview. According to him, the IASB should first be concerned about reflecting as good as possible the contract revenue regarding what it is worth on the market. A market-based model would result in more timely delivery of objective information regarding any forthcoming risks. Some other users of financial statements have tried to propose a solution to this comparability issue by stating that the interest rate used for discounting the cash flows should be updated less frequently than the fluctuations in the market interest rate, so that it would bring more stability. However this proposition has not retained much attention of the Board since it is only expressed by a few and because it does not expressly solve the issue for both sides.

Regarding this question of how to account the insurance contracts, some are still concerned that because it might depend too much on subjective estimates and assumptions, the contracts would lose in terms of comparability. For example, as it has been seen above, the case of the risk adjustment which is a main component of the contractual service margin. Most agree that this information is indeed very valuable. However they wonder if applying it would not trigger a lack of comparability and therefore make this information less useful. They express a similar concern regarding the discount rate. As there are two ways of valuing this discount rate; either top-down approach either bottom-up approach, they also think that it might diminish the comparability between different contracts. Finally, concerning all these assumptions that the management has to make, it seems essential to use the disclosures proposed by the IASB which increase the understandability of these assumptions for the readers of financial statements.

4.2.2. Underwriting result and investment result

As it has been previously seen, the IASB decided to split the layout of the results in three parts, the underwriting results that corresponds to the operational activity, the investment result to report any changes in the discounting effect of the present value of cash flows and the other comprehensive income where this change can also be reported depending on what the company decides.

Many users of financial statement agree that such as separation will be more useful in order to understand where exactly the earnings come from. Not only will the origin of the result be improved, but also its comparability with other businesses. However there are some users that would prefer having all these effects resulting from the same economic event reported in one common place. They are expressing this opinion especially for what concerns the OCI solution accounting some changes in time value of money in the other comprehensive income. However, this change might be the consequence of an economic event that also impacts the total comprehensive income in another way, and therefore these two changes might be presented in different places.

This feedback does not discuss whether or not this layout is very different than what insurance companies have today or not which is what the persons who have been interviewed seemed to do. The IASB’s feedback is therefore more focused on this situation as it will become and less about the changes that it will bring. The insurance professionals interviewed have not really discussed the split between the underwriting result and the investment result. They were more focused on what was going to be represented in the total comprehensive income and how different it was from IFRS 4 or the local GAAP.

4.2.3. Disclosure

It seems that most of the users of financial statements acknowledge a great importance for disclosures. They focus on seeing a relation between the amounts that are recorded in the balance sheet account and the amounts that are recognized in the statement of comprehensive income. This is especially important for the computation of the contractual service margin. Indeed, it will be developed in the sub-section number 7 that the IFRS 17 requests to have a retrospective approach regarding the computation of the CSM and this kind of disclosure might help companies for applying this retrospectivity.

They also care about disclosing the assumptions that were made by the company in order to measure the insurance contracts using the different models; this information is going to help the users to evaluate how the company obtained such results. The disclosure of information at a granular level is a controversy topic amongst the users of financial statements. Indeed, some of them support that kind of disclosing and some even proposed a standardized way of providing information at that level so that it would be more equal for companies. An idea would be that this kind of disclosure would be standardized based on geographic region as some users of financial statements have expressed it.

Amongst this feedback about disclosures, some actors were concerned about the fact that companies would provide too much information. They were concerned that companies would for instance display different information which is compliant with US GAAP or Solvency II additionally to the information requested by IFRS 17. If it is the case, some reconciliation between these two should be provided in order to permit the users to understand where differences between them might come from. This goes in line with what has been seen previously about the grouping issue and the fact too much information does not necessarily mean better quality information. Actually this is exactly what the interviewed person from the national bank of Belgium explained when he was talking about companies publishing annual accounts using different standards or norms, it is all a matter of what the users will understand better, and trying to be compliant with everyone. As to the other interviewees who expressed an opinion of that matter, all of them agree with an increase of transparency, even though they are uncertain about if this increase is going to be enough in order to meet the objective that the IASB has set up.

4.2.4. Unlocking the contractual service margin

It has already been discussed how a change in cash flows related to future services is accounted using the contractual service margin. It appears that most of the users actually agree with this decision from the IASB even though they note the importance of disclosing these amounts of changes in estimates during the period they occur. Indeed, they think that this change in estimates should actually be appearing in profit or loss account when the related future services are provided by the company. This way, the disclosure would be timely and economic coherent they agree.

Also, as a matter of consistency, unlocking the CSM would have the effect to be more consistent with the results of applying the premium allocation approach for instance or other IFRSs. However, as the interviewed insurance professionals have demonstrated during the interviews, the PAA would not be used so often or almost never used at all. In terms of transparency, unlocking the CSM would have as a result that profit or loss is less volatile and it is then easier to see trend information. This would increase the efficiency in making projections.

There are also some companies that disagree with this point of view and think that these effects of any changes in assumptions should be recognized directly in profit or loss during the period they occur. Their argument is that such changes would represent important economic events and therefore omitting them from the financial statement would be a mistake. Therefore, only showing them in the notes and not representing those in profit or loss would be a mistake.

As always, an alternative approach to these two prior ones has been expressed. This new approach is expressed only be a few users of financial statements and it is an approach that tries to take into account both current and future recognition. These users suggested that the contractual service margin should be unlocked for the changes based on the expected persistency of the event rather than the type of cash flows itself. As a result, if the event occurring is expected to be a one-time event then such changes should be recognized in profit or loss immediately. However, if it appears that this change is expected to be repeated in the future then this change should be recognized in the CSM.

As a general comment expressed by many actors, the recognition pattern of the contractual service margin and therefore the way it should be recognized in profit or loss is still not very clear. They would appreciate more information as to how the CSM is expected to be recognized in profit or loss in the future. This dilemma of unlocking the contractual service margin and to do it is well represented in the interviews that have been made. Indeed most of the interviewees agree that it is needed to apply it in such a way. However, the interviewee from AG insurance was more concerned about the counterproductive effect of unlocking the CSM and using a locked-in rate to discount the cash flows at the same time. As it has been seen before, he is not the only one thinking that this is nonsense.

4.2.5. Presentation of revenue and expenses

The main advantages regarding this new presentation that excludes the investment components are first the better comparability between short-term and long-term insurance contracts. The second advantage is that such a simple-to-understand presentation format could even be used to discuss the results with some non-specialists and therefore able insurance companies to touch a wider range of people or businesses.

The main disadvantage expressed mainly by financial institutions is that different presentation approaches for different types of insurance contracts actually makes sense since it takes into account the different economics of those contracts. If the IASB tries to publish only one approach then they think that this approach will be limited in terms of representing faithfully contracts from different economic horizons. According to them, it has been a very long time since there are different presentation formats for different types of insurance contracts and because of that they fear that users of financial statement would not expect such comparability since it is something they are not used to.

Feedback was given that, when this approach is published, the IASB should first educate the users of financial statements in order to make them understand what is recognized and where. For example the “insurance contract revenue” top line of the approach is very different from what these users have been used to. This is in line with the thoughts of the interviewee from AG insurance for whom there are many components under the caption “insurance contract revenue” which were not there before and therefore this asks for adaptation from users. Because of this uncleanliness in the presentation many notes are needed to explain these new amounts. Concerning the amount of information to be displayed, most users recognize the usefulness of these disclosures required by the IASB. However they are uncertain as to which information is essential enough to be displayed on the face of the financial statement and which information can be provided in the notes, since it would be enough for such information.

Concerning the valuation methods as such, some users of financial statements clearly state that the fewer exception to the valuation approaches there are, the better it is for insurance contracts because they will get more comparability. As a consequence, they advise the Board not to try to satisfy every actor by publishing exceptions to the general models which could result in counterproductive decisions. Similarly, they also agree that measuring components used for valuing insurance contracts in different ways would have the same result on the comparability of the contracts.

4.2.6. Presentation of some of the investment result in other comprehensive income

Here this paper is concerned about the OCI Solution that has been introduced in a previous section. According to the users of financial statement this view is very much correlated to the proposition of the IASB of having a market-based model for measuring those liabilities, which has raised many concerns already. As a result of that, those who prefer the use of a cost-based model will favor this solution proposed by the Board since it continues to avoid market-consistent information. They also agree that both current value information and amortized costs are essential and that one cannot be without the other. According to them this is an improvement to current accounting.

Surprisingly, those who favor a market-consistent view also agree with that solution. They state that as long as the information is provided, as it will be, it does not matter so much where it is provided in the presentation. However they claim that there should be enough information regarding that topic in order to explain to the users of financial statement where this information is presented; therefore this paper refers again to the proposal of the IASB to educate the users. In view of these two comments the IASB is quite confident with the fact that it has found an efficient solution as both current-based and market-based companies agree that this new method of reporting is a step forward in the right direction for valuing as accurately as possible insurance contracts.

The only institutions that do not agree with this new method are institutions that are already using current value information and they are already used to understanding its effects. This is why they would prefer all changes being recognized directly through profit or loss account. They think that splitting the recognition as such will just bring complexity to the reporting. However these comments only represent a minority of the feedback received and are not representative of the general opinion. Some comments, coming from both institutions that agreed and disagreed with this model, are concerned about a potential lack of transparency of the information regarding these changes. They fear that due to the fact that currently users of financial statements do not always use the information in other comprehensive income, they will not display it in the future or they will have difficulties writing down this information. They are also concerned about a potentially too important subjectivity and volatility that would be present while assessing the revenue of the cash flows when one looks at all the assumptions that have to be made by the management or because of the market fluctuations.

All in all, the comments regarding this new OCI solution are quite different than what had been discussed during the interviews. In the feedback given to the IASB, almost all companies seemed to have a decisive opinion on that topic, and that opinion was mostly positive. As to the persons that have been interviewed, they did not really express a clear opinion since it is quite difficult for them to foresee how the market will react. They also agree that the reason why they need this solution is to fight the market volatility that does not represent faithfully the value of insurance contracts. Also, most of the interviewees think that most companies in the insurance sector will be glad to use this solution. The companies giving feedback to the IASB all commented positively to the sub categories under the main caption "Insurance Contract Revenue" and the way these are displayed. According to them, it is a faithful representation of how the valuation of insurance contracts is processed under the new proposed standard IFRS 17.

All agree with IASB

4.2.7. Transition to the standard for the first time

The transition is an issue that has not been discussed yet. One of the main discussion topics concerning the transition to the new standard IFRS 17 is the retrospectivity of the standard. Again, this is not the goal of this thesis to develop how it will work and what are the effects of this retrospectivity that is applicable for insurance contracts. The global idea is that the IASB requires retrospective determination of the amount of contractual service margin and the accumulated OCI that results from the change which has already been discussed. The Board however permits companies to use practical simplifications for estimating those amounts whenever the retrospective application is not practicable.

However, the amounts in this simplified approach are not as accurate as what they would have been using the standard approach. Therefore, many users of financial statements support the proposal for disclosure that explains the assumptions made by the company and how these simplifications are used. As it could be expected, they also support the fact that companies should disclose these amounts that they have just found in the financial statements, on transition period but also in subsequent period. Regarding this proposition of having a retrospective standard, the IASB feels like they are on the right direction again with this approach since all users of financial statements agreed with the proposed approach.

Even though they agreed on the proposal of the Board regarding this retrospective effect, some institutions still have concerns about the complexity of that procedure. It would be especially difficult if companies are lacking data that they would have needed for applying the proposed approach, data that they had not thought they would need before. However, they agree that the proposal of the IASB of having a simplified approach has good chances of answering these worries for the companies that would be lacking data or would find this principle too complicated for insurance contracts due to the major change compared to the previous standard IFRS 4.

Some of their arguments are related to the topic of this thesis since they think that this approach will allow comparisons between contracts written before the transition date and contracts written after that date, which was not possible before, or more difficult. They also agree that this approach will preserve trend information. This concern about this retrospective application was shared by only one of the persons that have been interviewed, the professional from KBC. Moreover, she also expressed a positive opinion about the decision of the simplified approach that companies would be able to use. According to her many companies, especially small actors, will have difficulties applying this principle of retrospectivity, due to the many differences that arise from IFRS 17 such as different captions, different amounts and valuation methods or different categorization of the result.

All agree with IASB

As it has been seen in this section, most of the feedback received from the IASB, as a response to their revised exposure draft from 2013, are relatively consistent with what has been found during the interviews, except when sometimes the interviewees could not provide more information. One could therefore conclude that the interviewed persons were representing well the insurance sector population. The only element that was not consistent was that the IASB is able to interview representatives from all over the world thanks to its international position, which is something that could not be achieved for this paper.

However, as it is mentioned in the staff paper from 2014 concerning the feedback received (IASB, 2013), it is important to underline and to keep in mind that in general there are still some users of financial statement who think that the current way of accounting the insurance contracts do not need to be changed or improved. Because they currently use it well, they see no reason to change it. Furthermore, just like some institutions do not wish to welcome a new standard, some others are also not convinced that the changes proposed by the Board will be an improvement to what they were used to before.

They especially underline the cost of implementation of the new standard IFRS 17 which would outweigh the benefits that they could retrieve from it. These companies or institutions see these new regulations as something that has to be done for readers of the financial statement and that the benefits of it only impact indirectly the insurance companies themselves. The implementation cost and the way companies will have to handle with data is probably going to be a huge challenge for this new standard, but it is not the purpose of this thesis. These actors that have a negative opinion of the standard are not a majority at all.

What can be seen on the previous graphs that has been made at the end of each point discussed is that the changes or proposition made by the IASB have encountered success since most users of financial statements agree with them most of the time. The IASB has therefore well listened to the feedback given after the first exposure draft in 2010, and was also helped with the field work they made with selected companies. All of these have helped them to reach a standard that would meet the most positive opinion for many different actors.

5. A summary of the opinions collected

Now that a more global view of how the changes of the new standard IFRS 17 are interpreted and perceived by the insurance sector has been acquired. The objective now will be to summarize what has been seen and try to categorize it in terms of transparency or comparability so that the need of this paper can be answered. In order to do that, the five most essential changes that have been discussed with the insurance processionals during the interviews will be sorted out. Then their potential transparency and comparability will be discussed. Also some information that has been seen in the feedback from the 2013 exposure draft or the work field will be used in order to complete this summary and to make it the most coherent possible to the subject of the thesis.

5.1. The valuation methods

Comparability

What can be remembered here is that the IASB starts with a huge historical disadvantage which is the fact that during so long companies from different countries have been using different models for measuring the revenues of the insurance contracts already. Because of this, the comparability has been impaired and that is why these methods needed to be standardized.
However, thanks to the building block approach but also the variable fee approach and the premium-allocation approach, the IASB is improving this comparability between insurance contracts but also the comparability with other industries. Some actors have however warned the IASB about the importance of not providing too many exceptions to these new models so that they could reflect more the economic reality of the contracts. This would result in less comparability.

The insurance contracts' value will be even more comparable knowing that the BBA will probably be by far the most used approach. That is because of these elements together that not only the interviewers but also most companies that are being concerned by this new standard agree with the fact that the Board is taking one step forward in the good direction.
However, there are still some actors, such as one of the persons interviewed who believe that, even though they recognize the many positive decisions, the IASB will not reach its objective.

Transparency

The transparency in the new norm is not best represented by this point. However, there are still aspects that have been discussed during this paper, such as the fact that users would already be used to the valuation methods since they are relatively similar to what companies use under local GAAP, so that these information would already be more transparent.

Also regarding both the way of computing the value and the fact that the premium is no seen as an income anymore, one could affirm that the IASB tries to be more economic reality compliant and that brings more transparency for users. Regarding the methods used, it can also be highlighted that the use of the contractual service margin has a big impact in terms of transparency because it symbolizes the unearned revenue and that is why the premium is not considered as an income anymore.

5.2. The CSM and its unlocking

Comparability

As a matter of comparability, this paper will mostly focus on the unlocking of the contractual service margin and its positive effect. It would indeed have a negative impact to use a current rate for discounting the present value of the cash flows. The reason is that it would not give a fair presentation of the separation in the layout of the total income with having captions allocated to wrong sub-results. The other reason why using this locked-in rate has a positive impact is that it will also improve the comparison of insurance contracts within the same firm, thanks to the estimation of the unearned income that has to be made at the beginning of the contract.

Transparence

As opposed to the comparability view, the locked-in interest rate used for discounting the future cash flows is not the best in terms of transparency because not so representative of current market. However, if only the contractual service margin in itself is discussed, it clearly has many advantages for transparency of contracts. For instance, it allows new ways for companies and users of financial statements to see how to deal with insurance contracts on the long term, thanks to the spread of the contractual service margin through the period of the contract. The unlocking of the CSM would also result in an easier way of seeing trend information since the profit or loss account would be less volatile. All in all it makes sense that using the contractual service margin, like the IASB plans to do it, is improving the transparency because it is more timely and economic coherent.

5.3. Split recognition between P&L and OCI

Comparability

The OCI Solution is more interesting in terms of transparency than it is in terms of comparability. However, there are still aspects why the comparability should improve thanks to this solution. Indeed, this solution allows the companies issuing insurance contracts not to be directly affected by the volatility of the market. Therefore the underwriting result, which is not impacted by these volatile effects, will improve the comparability.

Transparence

The main reason why the OCI Solution is supposed to have a good impact is because every actor of the insurance sector shares the same idea than the IASB. According to everyone, using the other comprehensive income like that would best reflect the core business of insurance companies, and that will facilitate the reading of information from readers of the financial statements. However, there are still some users of financial statements that fear that difficulties might be encountered in publishing the information related to this split of recognition between the profit or loss and the other comprehensive income. This difficulty might come from the fact that some companies have not been used to accounting using the OCI so much before and it is something new.

5.4. The Earned Premium Approach

Comparability

When this paper states the earned premium approach, it means the approach of computing and recognizing the revenue itself, but also the presentation of the approach in the statement of profit or loss and OCI. The main criticism against a better comparability regarding this approach is the fact that it might be that different approaches are used when the companies have to value different types of contract. That is due to the fact that the Board wishes to satisfy most of actors coming from different legislation.

Most insurance professionals agree that the IASB has for goal to represent the results from insurance contracts as uniform as possible, using the “insurance contract revenue” caption for instance. This should be improved thanks to the new underwriting result which represents the operating result of the contract and therefore excludes the investment components and brings better comparability.

Transparence

The potential transparency is however more questioned. The negative point is that companies can use their own techniques and formula in order to compute their best estimates of future cash flows. The issue is that companies are usually not very transparent regarding the information concerning the formula they use within the company. However, the new presentation and the way it is laid out appears to be more useful in order to understand where the earnings come from thanks to the fact that this presentation looks simpler.

5.5. Disclosure required

Comparability

The disclosures have a very few impact on the comparability of the new standard IFRS 17. However companies and users of financial statements will have to look at the disclosures in order to understand and therefore compare the valuation methods used. Indeed, thanks to the disclosures, it might appear that some contracts have been valued the same way and can therefore be compared. As to whether or not the disclosure has a positive or negative impact to the norm, this has to do with transparency of these disclosures.

Transparence

It has been discussed that the disclosure under IFRS 17 will improve transparency because of the many requirements put in place by the IASB. However, it might be that the new standard is not as transparent as what companies are already doing under certain local GAAP for which the transparency is already very important, this depends on the legislation of the countries. Even though, in general, the fact that companies will have to disclose for instance their valuation techniques is a step forward in the direction of full transparency to readers of financial statements.

It has also been seen that some CFOs are not persuaded that the next standard will bring enough transparency or not enough as they would expect at least, partly because they insist on the fact that more information does not mean better quality information. However this is the opposite than what other actors say, some say that the more information is displayed the better it is. It is then the role of the readers to distinguish what information is essential to them.

This summary of objective points of view according to comparability and transparency was needed because there were many ideas collected during the interviews, and in the feedback received from the users of financial statements in response to the revised exposure draft from 2013, that were not directly related to these two components. However, these ideas and thoughts are helpful in understanding the different effects and challenges. Here is the information that is core to the thesis. In a short overview it can already be observed here that the results are mostly positive. Even though one should wait for the next section in order to draw and develop an objective analyze of the comparability and the transparency of the new standard, it can already be seen that most concerns come from the comparability part of the standard. As to the transparency objective, except small concerns from one interviewee and a few actors, it is more likely to be met.

6. Expressing a critical opinion

In this section, the summary from the last section will be taken and a comparison with what the IASB expects from this new standard will be made. Doing this, one could hopefully see whether or not the Board is reaching its objective. In order to this, the comparative criteria will be based on the paper from the Board published in January 2017 (IASB, 2017), which explains why this change and a new standard was needed and what it will bring, and also different staff papers which explain what the IASB decides and how they see things have improved. To achieve this this paper will proceed once again in splitting the process into two aspects, the transparency and the comparability.

6.1. Comparability

IASB assumption: "*Companies will apply a consistent accounting framework for all insurance contracts.*" – The Board, January 2017 (IASB, 2017)

In order to achieve this consistent accounting framework, the IASB has established the three valuation methods that companies issuing insurance contracts will use according to the type of contracts they issue. The more valuation methods there are, the more difficult it will be for increasing the comparability. However, here it will be mostly the building block approach that will be used; therefore most insurance contracts will indeed be comparable. The other two approaches exist in order to give companies the possibility to either report their revenue in a simpler way either to be more market coherent for what concerns the valuation fee approach. Also, because companies would now be having different approaches according to the type of contract, it would be possible for companies to compare also according to products.

Thanks to this approach, not only the comparison within the firm will be improved, but also the comparison among different companies and what is more important even, among industries. This was also the goal of the IASB when they started this project; they wanted insurance companies to be able to be compared to other industries. That is why the revenue recognition is so essential in this project. Other factors impact positively the comparability such as the much controverted locked-in interest rate. Also, the OCI Solution was a truly innovative concept that is supposed to help contracts being more comparable due to the fact that fluctuations independent from the contract itself are reported somewhere else that in the underwriting result which is the result used to effectively compare different contracts. Another positive element is that IFRS 17 has to be applied retrospectively, using a normal method or a simplified one. Therefore, it is not only the new contracts that will be concerned by this comparability but also the insurance contracts that the firm has already issued prior to the transition date, since they will have to be valued accordingly to the new valuation methods of the standard.

However, there are still some areas that can be improved in order to reach a perfect comparability. For instance, there is the fact that with this new standard there will still be many components that will depend on the management decisions and also different assumptions that will be made by the companies, for computing the future cash flows for example. All in all, it is believed by most actors that the IASB played its part of being an international body trying to take all users of insurance contracts into account and synthetizing their way of accounting into a few that represents them. As this paper is now trying to express a critical opinion about this particular aspect of the paper, it seems fair to state that even though there are some areas for improvement, most aspects of this standard definitely go accordingly to the objective of the IASB.

6.2. Transparency

IASB assumption: "*Insurance contracts will be measured at current value.*" – The Board, January 2017 (IASB, 2017)

The measurement at current value was largely questioned amongst main actors. The most negative opinion expressed regarding this point concerns the locked-in interest rate in order to compute the discounted value of the cash flows. Some actors are indeed concerned with the fact that it does not represent a current value of the cash flows throughout the live of the insurance contract.

However, it has also been seen that thanks to the use of the OCI solution, and the profit or loss account, the changes in the time value of money are to be disclosed. According to the IASB, this should counterbalance this effect of the locked-in interest rate. Another factor that goes in line with this measurement at current value is the discount that has to be applied on the future cash flows in order to spread it over the remaining life of the contract.

IASB assumption: “*Companies will provide information about current and future profitability.*” – The Board, January 2017 (IASB, 2017)

For what concerns the information provided by the companies, the comments are more positive. Regarding the profitability of the contracts for example, there is the new contractual service margin introduced by the standard that is supposed to help companies in their predictions.
Also the unlocking of the contractual service margin should provide more information for users of financial statements. Therefore, if estimates of cash flows and the risk to which they are associated change, people shall be aware of it since information related to that will be disclosed.
The layout of the earned premium approach is supposed to be helping anyone interested in knowing what the revenues of insurance contracts are, because of its simple presentation. The origin of the income shall also be provided by this presentation, especially thanks to the separation between the underwriting result and the investment result.

IASB assumption: “*Companies will provide additional information about estimates and judgements used to measure insurance contracts.*” – The Board, January 2017 (IASB, 2017)

The negative aspect is that even though the IASB claims that the information will be more transparent, the standard still allows companies to use their own techniques or assumptions in order to compute the estimates of cash flows for instance.
The big trouble is that companies are usually not used to disclosing this kind of information, or they are not particularly transparent about that, and no one knows yet how they are going to deal with this obligation.
However, it is appreciated that the Board is pushing in that direction of displaying as much information as companies can about assumptions or decisions they take on their own. On top of that, companies concerned by this standard must also indicate what valuation method they are using for the different contracts they have.

Despite the elements about the transparency that have previously been developed, there is also another point for which debates are open. It is the question of whether or not more information, such as prescribed by the IASB, automatically means better information.

The opinions amongst insurance professionals seem to be divided. Also, indirectly part of this debate is the way of grouping contracts together and the grouping criteria as it impacts the degree of information provided by the firm. The wider these criteria are the more granular the information will be. Therefore, it is the same question as to whether or not this much information is needed for a better understanding.

7. Sustainable development

One of the motivations for writing this paper is that it was a boiling subject since it was known that the standard would be published anytime soon. Indeed, a bit later after IFRS 4 has been published, the public was aware of the fact that the IASB would have to publish another standard about insurance contracts since IFRS 4 was just an interim standard. It has then been more than a decade that the parties concerned have been waiting for this standard. It was therefore most interesting to make a study that might be helpful to the insurance sector.

This is why in the beginning of this thesis sustainable development mindset was needed in order to write it. It was already clear that it would be a forward-thinking project due to the fact that the very standard was still being discussed by the Board and was not finished yet. It was also forward-thinking since the different actors in the sector were not so aware of this new standard due to the fact that the IASB gives companies a long implementation period. That is the reason why there were so few persons to interview.

One of the reasons why it is believed that this thesis might help the sector is that there are currently not many studies done on this subject. Only case studies developing the new standard could be found, such as the one from Deloitte (Vlaminckx, Vandeweghe & Lievens, 2013) that has been used and helped in understanding the changes that the new standard would bring. Most papers or case studies are indeed concerned about teaching or informing the companies issuing insurance contracts what they will have to change in order to be compliant with the new standard IFRS 17. There are also instructions that are given by the IASB or by its staff in staff papers for instance in order to help companies going through this complicated implementation process.

However, even in these case studies or explanations about the standard, the concern is not based on the two factors this paper is concerned with which are the transparency and the comparability of IFRS 17. It is possible to find different opinions about these topics but they will be a small part of other papers or articles, they will not be a paper on their own, especially not for a long analysis representing all the major actors as it is done in this paper.

As it has been written in the previous paragraph, most papers that can be found now are meant to be read by insurance companies. However, this paper is meant to be read by any actor of the insurance sector who is interested in the topics described. It could be insurance companies in order to understand what the challenges that they could be facing are. But it could also be financial analysts that want to know more about the information they will be provided with and how they will be able to compare revenues of insurance contracts within the sector or with other industries. Thanks to this focus on transparency and comparability this paper aims at being more inclusive for other actors than insurance companies.

One of the criteria for reaching sustainable development with a project is the economic efficiency that aims at prosperity. In this paper, the analyzed standard IFRS 17 meets this criterion and because here an interpretation of this standard is studied, it should also meet this criterion. Indeed, as it has been written in this thesis, the objective of this paper is to inform actors in contact with companies issuing insurance contracts and give answers to questions regarding the transparency or the comparability of the standard. More than answering questions, this paper may also be used for people wishing to know how the norm will be interpreted by the main actors in the sector.

Another criterion of the sustainable development is the social equity aspect regarding people. Truly, the IFRS standards are usually not especially turned towards subjects like social equity, due to the fact that they are objective accounting norms. However, this new standard is quite different since its goal is exactly to have more equity between investors, insurance companies or analysts. The idea is that thanks to the new regulations of the norm improving transparency, the standard should make it more equal for people or institutions to be informed about these contracts. One could therefore state that this paper helps bringing equity of information between people interested by this topic.

Regarding the environmental sustainability for the planet, it refers to the international reach of the IASB which is an international organism and therefore touches every part of the globe. Therefore, all companies on the planet issuing insurance contracts are concerned by this IFRS 17. As a consequence, it goes the same for this paper which is not excluding any geographical area. When it is discussed about the environment here it means not only the insurance companies but all actors such as preparers, investors, analysts, standard setters, regulators and some others.

Finally, the last criterion of sustainable development is the participative and transparent governance mechanism. It is hard to say that IFRS standards are about being participative because it is mostly the companies who are supposed to apply them and they take their decisions alone. Regarding the transparent governance, it is clear that it is exactly the goal of the IASB since they wish companies to display the valuation methods they use or explain why they make certain assumptions for instance. Thanks to that, companies will be more accountable regarding analysts and readers of financial statements. Whether or not the standard itself will meet this objective of transparency is another question, which is addressed in this paper. But surely, this thesis debates about the topic of transparent governance and how companies will manage it.

An important point for IFRS is that the standards are applied at an international level. That was done in order to ensure that all countries would have similar accounting techniques. Behind that was the idea of comparability already. However, it is still up to each country to decide whether or not they wish to apply these standards.

Due to the fact that IFRS 17 is an accounting standard, the focus will be more on the economic aspect and sustainable economic development. Both the transparency and comparability are supposed to improve the global economy being fairer. Comparability can improve it in the way that different actors around the world will now be able to compare companies issuing insurance contracts with other industries regarding its revenues. As to transparency, it will give wider and more precise information to readers of financial statements regarding the valuation and the way of accounting these insurance contracts.

Regarding this economic aspect of the sustainable development, what has not been discussed yet is the role of the economic crisis. The worldwide economic crisis had an effect in the process of writing this standard. IFRS 17 *Insurance Contracts* is concerned about valuing insurance contracts at their fair value and one of the elements for that valuation is the effect of the market. Indeed, the estimate of future cash flows has to be discounted in order to find the fulfillment cash flows. In order to discount the cash flows companies have to use an interest rate that depends on the current market.
During the crisis, the interest rates have been extremely volatile and the Board was concerned about how to value efficiently insurance contracts with such a volatile element. Therefore, in order not to impact the economy of companies issuing insurance contracts, the IASB elaborated the idea of the OCI solution which changed the way of measuring or accounting insurance contracts.

One of the ideas under the economic aspect of sustainable development is that the economic development through the years is assured by using uniform techniques so that unexpected results are unwelcome. Applying this at a company level, it could be compared to what companies issuing insurance contracts will be doing under IFRS 17. Indeed, notably thanks to the new contractual service margin. It will bring a safer development and more precise predictions thanks to the CSM so that it helps the companies being more competitive and predictable.

As economic development is notably about improving the current standard of living, the new IFRS 17 is supposed to make it easier for people to understand insurance contracts. Economic development is also about bringing innovations and new ideas, such as the CSM or the OCI solution. What has not been discussed yet is the transition phase in order to get to this innovation.

This is an inevitable phase in order to reach economic development, and it has been seen in this paper already that the implementation of IFRS 17 might cause some trouble to some companies because of the big amount of changes. However, the IASB is used to implementing standards and the Board usually provides help for these companies as they already declared they would do it for IFRS 17 throughout the implementation process until January 2021.

Governments usually have an important role to play concerning sustainable development and the procedures to put in place. However, here the most involved actor in this process of developing a new standard is the IASB and this is an independent international body. It does indeed happen that governments are not always at the center of the process. For instance, the United Nations have published on their website (United Nations, n.d.) a number of goals that are prerequisites in order to reach sustainable development. This is a sort of guideline for governments to apply.

In order for it to work, many different goals are needed and not just one, even though the overall objective is the same. This could be compared to IFRS 17, where many new methods, techniques and layout are put in place in order to reach the same goal which is to gain more transparency and comparability. It would not be enough to simply state that in order to gain more transparency, companies should display more information. It needs more than that. Furthermore, it can be observed that these goals reflect the four aspects of sustainable development that have been developed in the beginning of this section.

All in all, a sustainable development perspective has been taken while writing this paper. Not all of the four dimensions have been fully developed because it would not fit the purpose or even the subject of this thesis. However, most of them have been discussed in a way that it is related to the new standard. The new standard is supposed to make it clearer for companies issuing insurance contracts in terms of revenue recognition but also in terms of information displayed. It is at least this is the idea of the IASB. Therefore, the objective of the IASB is closely related to sustainable development and as to whether or not the objective will be met or not, this will be discussed in the last section. In the case that these objectives are met, then the Board will have adopted a sustainable development view.

8. Possible extensions

This section is dedicated to improvements that may be applicable to this paper or points that have to be highlighted regarding this paper in general. The first point that has to be mentioned is the fact that it may seem that there were not enough interviewees to have a detached and representative opinion in this thesis. In fact, if there was only the interviewees' point of view for the research it would not be enough. However, it was a known fact that the IASB had already received 194 comment letters from actors of the insurance sectors commenting the revised exposure draft from 2003. These comment letters have therefore been used. The only difference with the interviews is that during the interviews there was the possibility to ask questions and have a productive discussion, in order to fulfill the analysis of that subject. Moreover, the topics commented in the letters were mostly the same that have been picked to discuss during the interviews. Therefore it was easier for me to make them correspond with one another. As the role of the interviews was to gain more precise answers to the questions thanks to a constructive discussion, the role of the comment letters was to make sure the point of view presented in this paper was representative of the sector. This is why these two processes were complementary.

One important fact that should be highlighted in order to have a better understanding of this paper is that this thesis was written during the years 2016 – 2017 and was finished a bit less than two weeks after the standard was published. However this did not impact the study so much since all the information regarding the standard was published frequently by the IASB. Also, the last major move that could have brought changes was the work field in the second half of 2016, and the conclusions from the IASB were published very soon after that in a staff paper in November (IASB, 2016). Therefore there were not many changes as from January 2017 on. The effective publication of the standard was therefore not so significant, for this thesis. The only effect that it had regarding this paper was to set out the effective date of application of the standard which will be January 2021 as it was already expected before.

As it is a new standard and because it is the first real international standard regarding insurance contract, some actors consider that troubles might appear in the implementation phase or later. It can therefore be expected that the IASB will have to review it and may adjust some paragraphs in order to meet the sector's expectations. Such a review is not expected to happen before January 2021 since before that is the implantation phase.

9. Conclusion

In this thesis, it is discussed whether or not the new standard IFRS 17 published in May 2017 has fulfilled the goal of the IASB. The goal is to provide more transparent information about the effect and revenue of insurance contracts on financial statements and to standardize the accounting methods in order to improve the comparisons between products, companies and across jurisdictions, as stated in one of its presentation (Scott, n.d.).

In order to do that, the situation as it was during the interim standard has first been analyzed. IFRS 4 basically permits companies to keep using their usual valuation and accounting methods. Then the changes that came from IFRS 17 have been sorted out and from these changes the most discussed and significant ones, that would impact the transparency or the comparability, have been taken. These changes concerned mainly the valuation and presentation of the revenue of insurance contracts and the disclosures provided by the company.

After doing this research on the coming standard, it was possible to proceed with interviews with insurance professionals. The persons that got interviewed were representatives from companies concerned by this standard but diversified by sector. Therefore two insurance companies have been interviewed, because they were the principal targets by the standard. One controller and one insurance companies association have also been interviewed since they could help with their overall view on the sector. Questions concerning these five main changes have been asked to these different persons. After that, the outcome of these interviews has been developed under the section number 3 of this paper. The results of the interviews were good in terms of coverage of these changes thanks to the diversification of the actors. Some had more to say regarding the valuation methods and others were more concerned with the disclosure for instance.

However, due to the fact that there were not many interviews, the persons that have been interviewed might not have been representative of the sector. Therefore, it has been decided to extend the opinions on that standard to the many feedback that companies sent to the IASB, as a response to the revised exposure draft from 2013 (IASB, 2013). The Board had received 194 comment letters and this is enough to represent the sector. In that staff paper, the staff also shows that the letters come from various respondent well represented in terms of proportion. The fact that these comment letters were commenting on mostly similar topics that have been chosen at the beginning of the study has confirmed that these were the key challenges.

Both the interviews and the summary of comment letters have played their role. The comment letters were needed in order to have a representative opinion of the sector and the interviews were needed in order to go deeper with some subjects to gain a better understanding and then being able to better represent the points of views of the different actors. Now that these two complimentary components have been presented in the paper, it was possible to analyze them by observing if they go in the same direction. Most of the time, they did go in the same direction, so that it leads to think that this was an efficient base for work. The outcome obtained could therefore be summarized regarding transparency and comparability in section 5.

It was only in section number 6 that it became possible to draw conclusions on these comments and on opinions that had been gathered through the process. In that section the result of the findings has been split in two different parts; the comparability and the transparency. By summarizing the ideas developed in prior section, it could be seen that the comparability is supposed to be improved under IFRS 17 thanks to new solutions by the IASB such as the building block approach, the OCI solution or the locked-in interest rate. Even though there are some reproaches made concerning this locked-in rate and other components, the reactions regarding the comparability of the new standard are mostly positive.

Their objectives regarding the transparency of the new standard were more precise and therefore there were more expectations. The opinions regarding the transparency were a bit more controverted than the comparability such as the decision of the IASB to display insurance contracts measured at current value. Some actors feel like the contract is not completely coherent with the market. Other actors feel that it would be difficult for companies to display the information decided by the Board. However, there are also very positive comments such as the ones regarding the valuation of the insurance contracts and their profitability. This should allow readers to have a clearer view of the revenues of insurance contracts, and that was the main objective of the IASB.

Companies will therefore meet challenges, mostly regarding the transparency as there are many new disclosures that they will have to get used to. Another major challenge that they will face is simply the implementation of the standard, even though thanks to the IASB the implementation period is relatively long. Regarding the comparability, challenges will be encountered concerning the valuation methods themselves because companies will have to take their own decisions and make their own assumptions for some parts and that might impact the comparability. Thanks to IFRS 17, companies issuing insurance contracts will also have opportunities to exploit, such as the fact that comparisons with other businesses or other insurance companies will now be easier. But also comparisons of products within the same firm will benefit companies and it should give companies a clearer view of the revenues coming from these contracts.

To sum up, even though there are some actors that completely disagree on specific elements, the majority agrees with the IASB and thinks that the Board will reach its objectives. The objective of transparency will however be harder to reach than the objective of comparability. Finally, it is probable that adjustments will have to take place, because most companies have not done any implementation yet. Therefore, it is likely that companies experience some troubles during the implementation period before January 2021. The Board will then have a more precise view of what needs to be adjusted.

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A study on the expected impact of IFRS 17 on the transparency of financial statements of insurance companies

The new standard IFRS 17 Insurance Contracts has been published on the 18^{th} of May 2017 and it is superseding the interim standard IFRS 4. Even though the IASB has been working on this project for more than a decade, there have not been many studies regarding the transparency or the comparability that the standard should bring. Indeed, most papers are concerned by teaching companies how to implement these changes. That is why this paper aims at providing an answer to question as to whether or not the IASB has met its objective of transparency and comparability.

The results have partly been based on interviews that had been made with professionals of this sector. The other source of the results comes from feedback that concerned companies or institutions have provided to the IASB. Together, these two sources of information form a representative opinion of the insurance contracts sector. The interviews and the feedback have therefore been confronted in order to see if they were complementary, which they were. With these two sources, five main topics have been analyzed; the new valuation methods, the contractual service margin and its unlocking, the OCI solution, the Earned Premium Approach and finally the disclosure required by the IASB. There were many opposite opinions depending on what companies or institutions were concerned with.

The results obtained were contrasted between comparability and transparency. It seems that in terms of comparability actors are mostly concerned about the usage of mainly the building block approach, the OCI solution and the use of a locked-in rate for discounting the estimates of future cash flows. Regarding that, the objective of the Board should be met. However it is more controverted for what concerns the transparency. Indeed, some actors are concerned about the valuation of the contracts and they are not sure it best represents a fair value of insurance contracts. Some others are concerned with the difficulty of applying the many disclosures required by the Board in practice. However, there are mostly positive comments regarding the transparency displayed by insurance contracts and most actors recognize the improvement in comparison to IFRS 4.

All in all, most insurance companies, institutions and users of financial statements agree that the IASB will meet its goal of providing an exclusive standard for insurance contracts that will improve the comparability and transparency of these contracts.