

IFRS 17 *Insurance Contracts* User Survey Summary

UKEB

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The views expressed in this presentation not necessarily those of the Endorsement Board, nor are they necessarily reflective of any official policy or position.

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I. User outreach approach

Broad Approach

- Engagement with EFRAG and review of their IFRS 17 User outreach findings
- Desk top assessment of User related publications
- Feedback from UKEB IFRS 17 TAG members
- Targeted engagement of analysts, rating agencies, representative bodies, auditors and regulators



Wide Engagement

- 6 analysts and 2 rating agencies interviewed
- 2 User representative organisations (CFA and IA) engaged
- Targeted communications with 58 specialist insurance & general analysts



21 Responses

- 15** Analysts
- 2** Investor Associations
- 2** Rating Agencies
- 2** Other

2. Users' overall perspective

Most users consider that accounts prepared under IFRS 17 will represent an overall improvement over current accounting.

'The most important step for IFRS 17 is that everyone agrees it is a "standard" that SHOULD be applied consistently. With enough good disclosure, consistency and best practice should be enforced over time.'

'It will be an improvement long-term. Near-term it will create plenty of confusion as well!'



'Looking forward to just getting this done and endorsed as soon as possible, because that is when the real work and analysis can begin'

'Accountants have failed throughout history to link financial reporting to industry dynamics, this is going to be more of the same.'

'Could you wait until after I retire for its implementation? (ten years?)'

3. Anticipated benefits to users

Most significant as ranked by Users

- 1st** Consistent revenue and profit recognition
- 2nd** Detailed disclosure of key assumptions and estimates used
- 3rd** Measurement principles being closer to Solvency II
- 4th** Splitting out underwriting and investing results
- 5th** Identification of onerous contracts

19/21
Optimistic about the
realisation of the proposed
benefits of IFRS 17

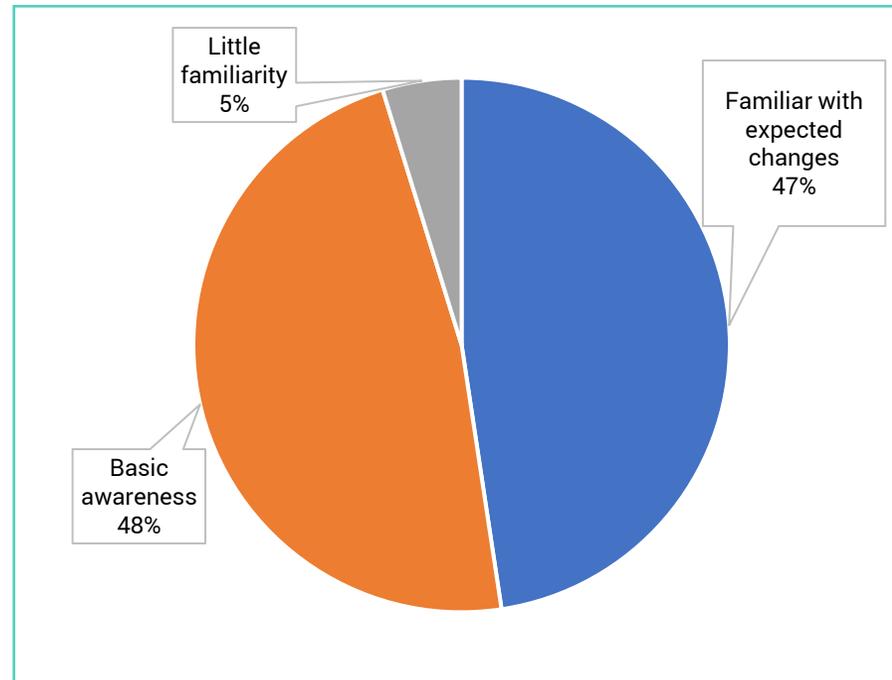
4. User awareness and engagement with insurers

16/21 IFRS 17 is significant or has moderate significance **BUT** **11/21** No specific communications or little information provided from the insurance company.

'What will earnings look like and what KPIs will you track.'

'What are the material changes, if any, in income statement lines arising from implementing IFRS 17?'

'How will the changes impact capital generation and reserving?'

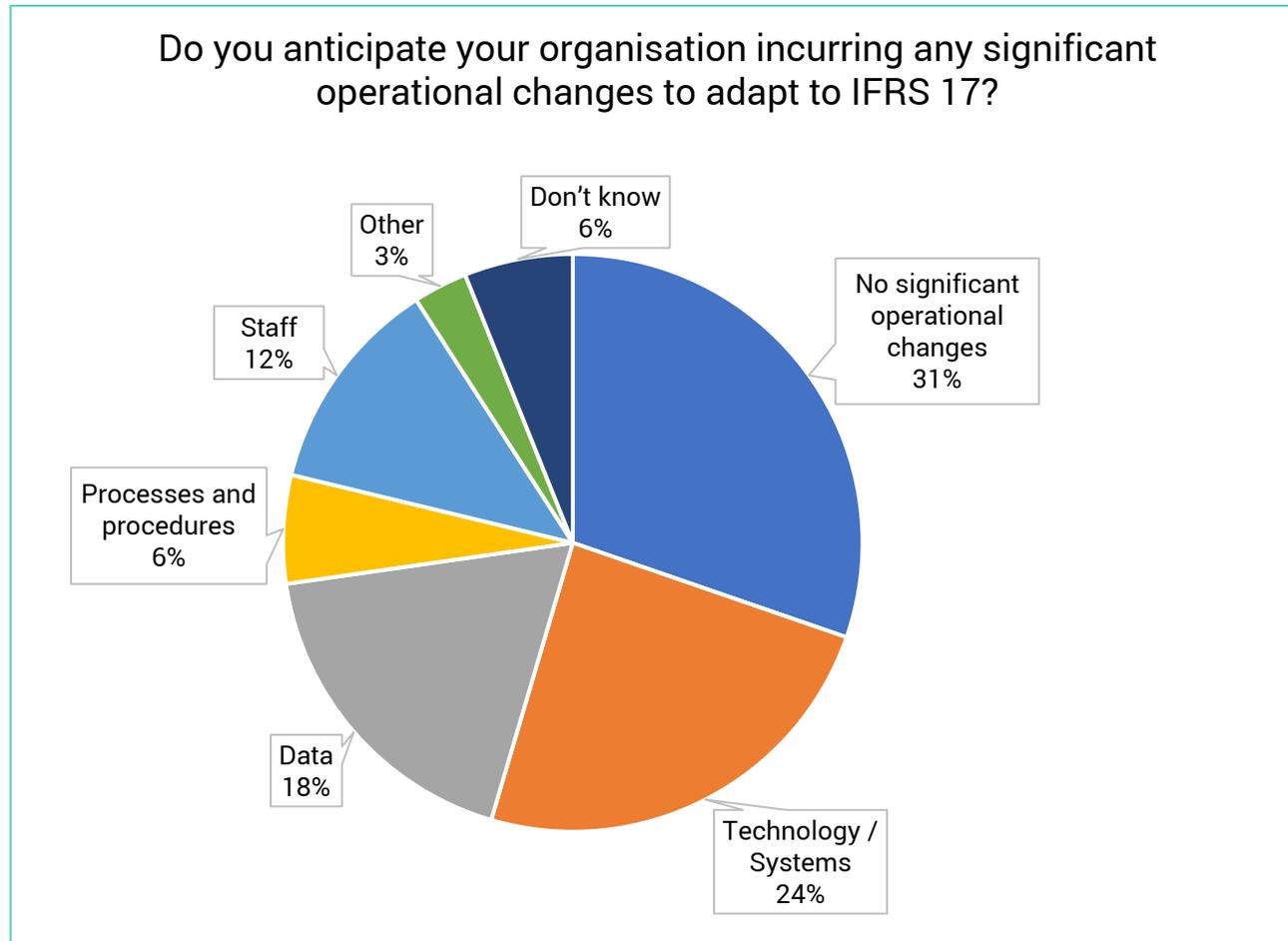


'allow for a lot of judgment...going to be challenging...'

'Companies not being forthcoming...still very much in the dark'

5. Implementation impacts for users

Users anticipate some significant operational changes but with limited implementation and ongoing costs.



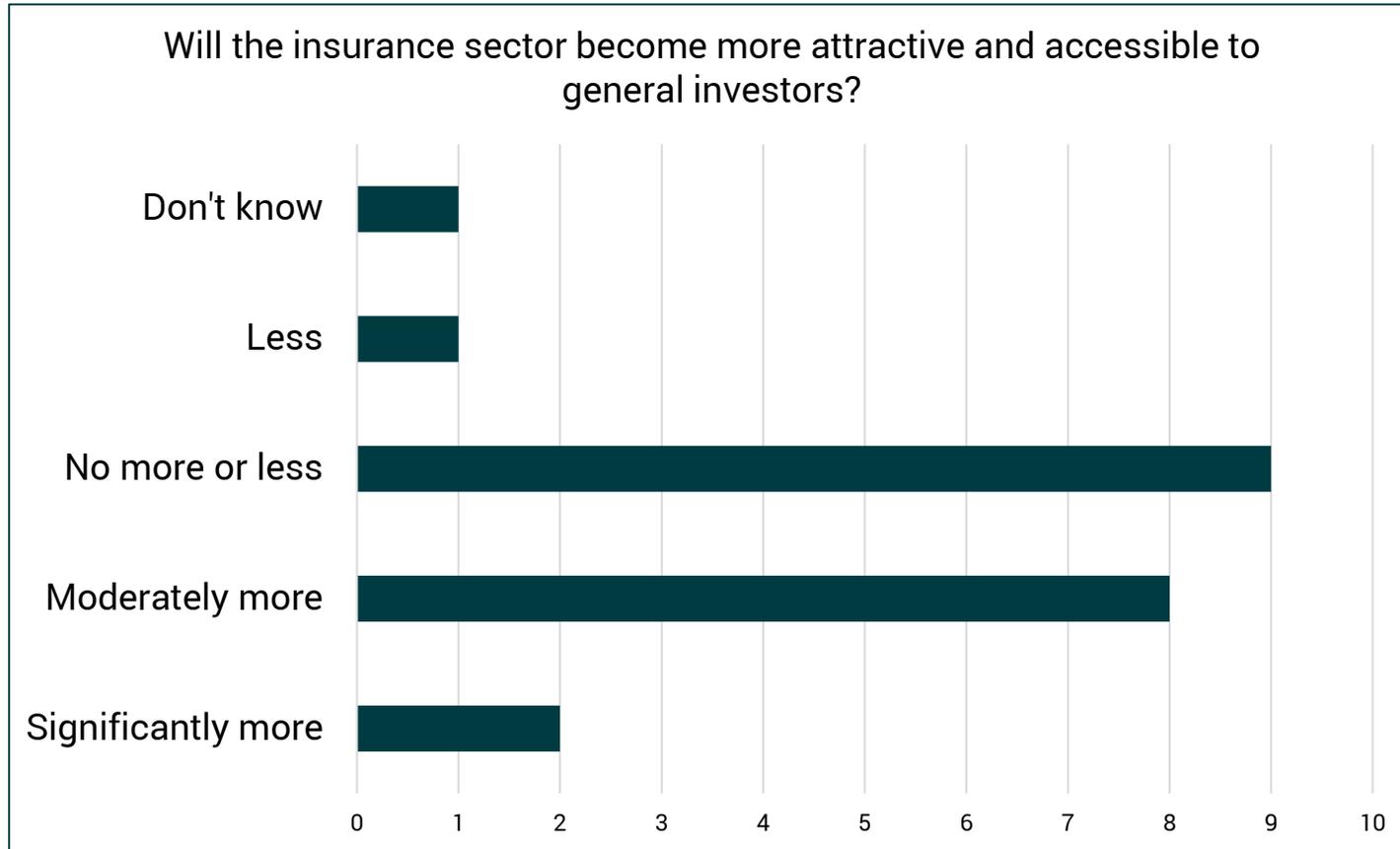
14/21 anticipated no significant implementation costs*

18/21 anticipate no significant on-going costs

14/21 view insurers' implementation costs as significant

* 6 users anticipated implementation costs in the range of £0 - £250,000 and one in the range of £500,000 - £1,000,000.

6a. Attractiveness of the insurance industry

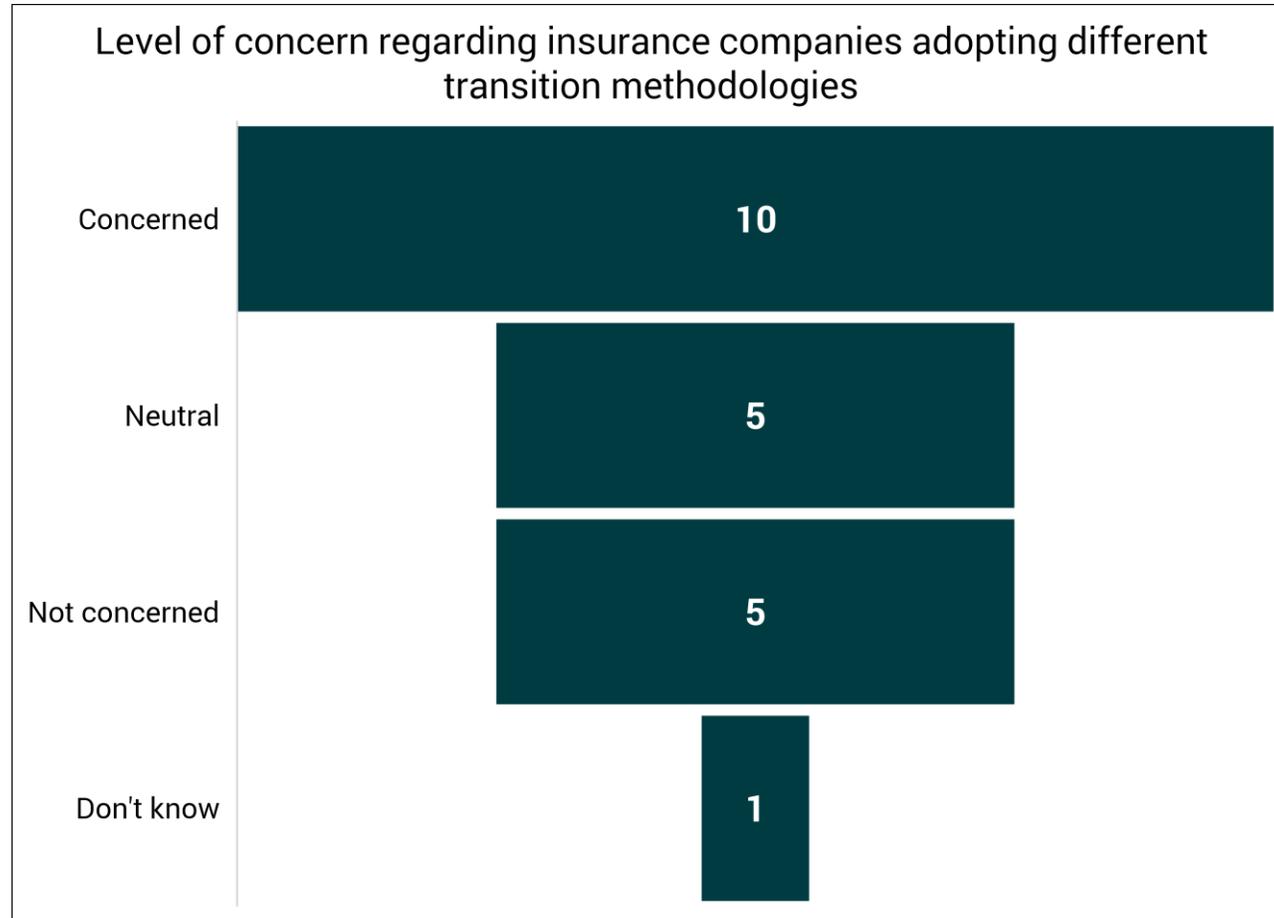


18/21
agree that financial statements
of insurers will be more
comparable

19/21
agree that the industry will
continue to be challenging for
non-specialist investors

6b. Transition and products

Users were split on whether the transition options will impact comparability. In addition, half of users anticipated insurers may change both product and pricing strategies.



User Perspectives

Product Strategy

Annuities, Long-tail Life and Guarantees may be impacted due to the requirement to match the profit to the term of these product.

Product Pricing

Separate disclosure and immediate recognition of onerous contracts may lead to insurers seeking to reduce these contracts, possibly through price adjustments.

6c. Key metrics

When assessing insurance companies' financial performance, respondents* advised that capital generation/solvency or a mix of metrics were the most commonly used while return on equity was the least used.



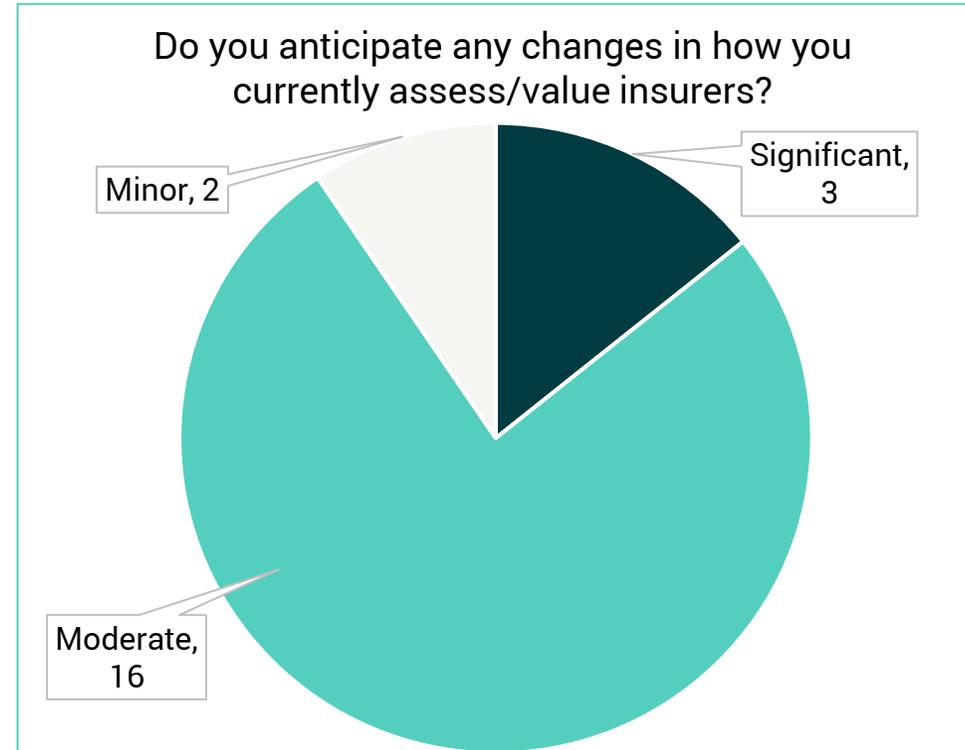
* Nineteen of the twenty-one respondents provided an answer to the question 'When assessing insurance entities: Which metrics are the most important to you?'

6d. Valuations

All Users noted that there would be changes in how they assess and value insurers, but these would be moderate.

'Will *avoid any over-reliance on IFRS 17 metrics* until the assumptions behind the new data becomes clear and is proved over time.'

'Approach based loosely on current IFRS reporting metrics, but with *input from other metrics.*'



'Potential for analysing and applying a multiple to CSM, or *adding CSM back to equity to get an adjusted equity*, and measuring growth.'

'We may discover factors relevant to valuation: e.g. the *prudence of reserves*'

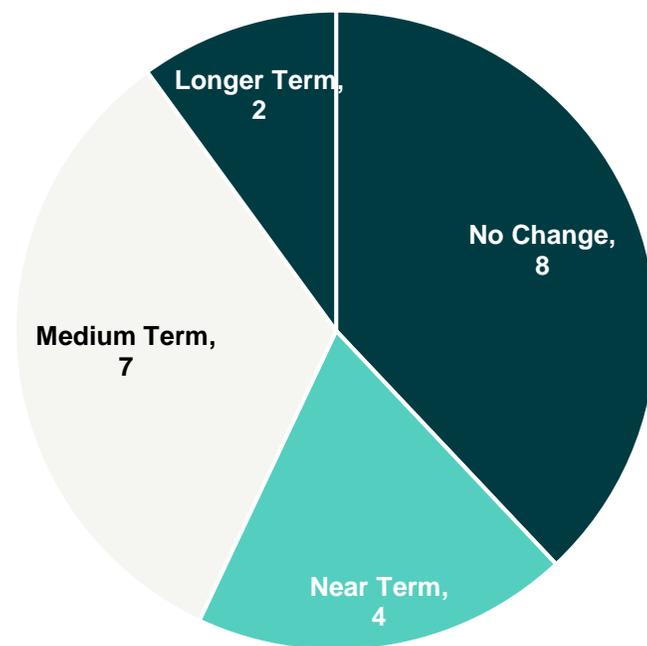
6e. Credit ratings

Thirteen users anticipated that insurance companies' credit ratings could be impacted.

'there will be a time lag between the initial issue of first IFRS 17 results and how the markets perceive them,...hence potentially ratings may settle in the medium term.'

'earnings power will change with greater comparability and understanding of profit emergence - particularly the CSM which becomes a source of future profit.'

Could IFRS 17 impact insurers ratings? If so, when do you think this may occur?

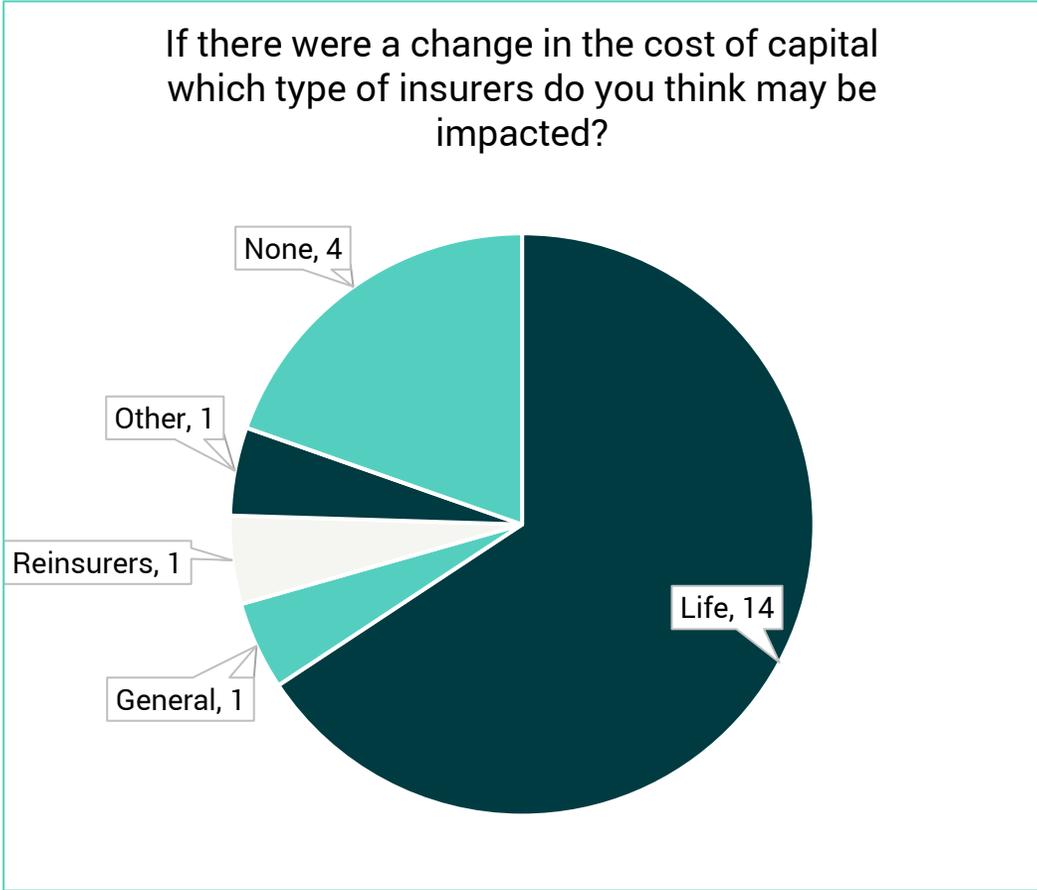
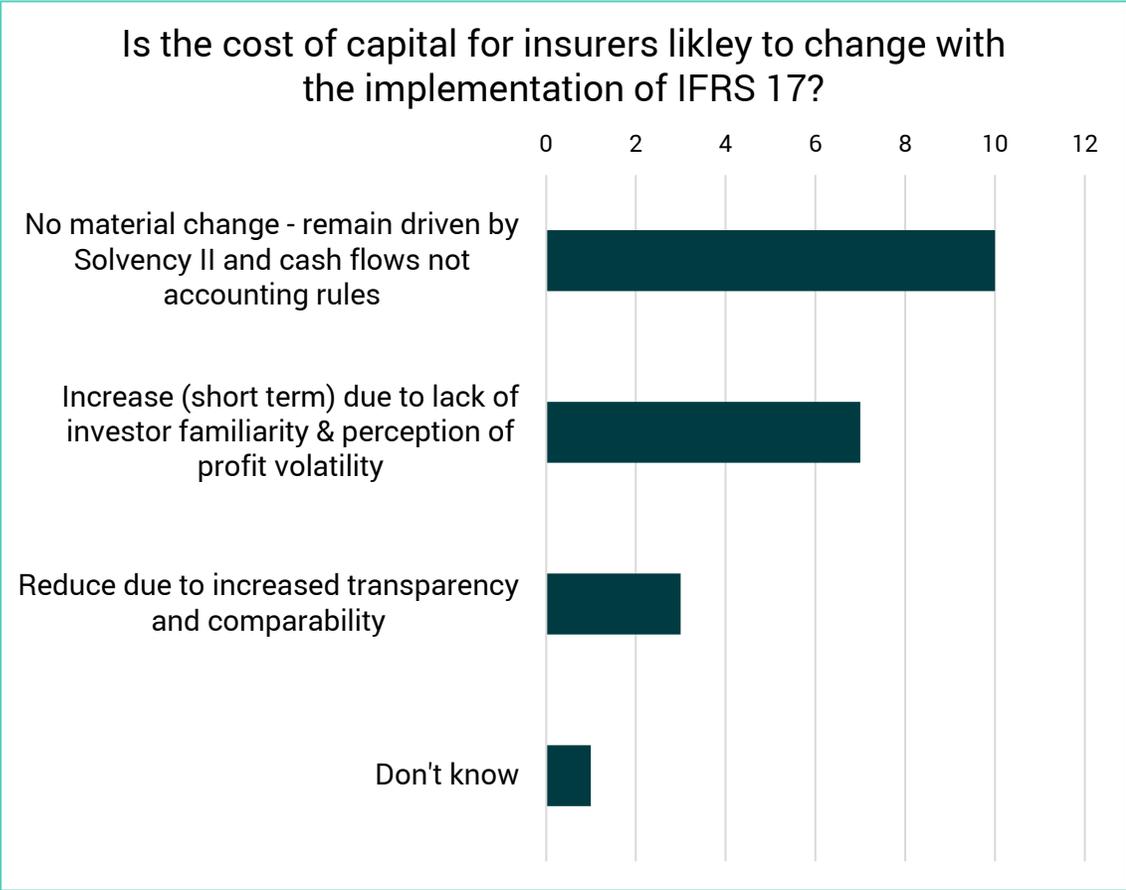


'accounting change should not change the underlying economics of the business, which is what ratings capture.'

"SII is effectively an alternative standard and so IFRS can change and it causes no material change in how users view insurers' capital generation capacity."

6f. Cost of capital

Ten users anticipate no material change while ten anticipated a change in the cost of capital for Insurers. The majority, fourteen, anticipated that Life companies could be the most impacted.

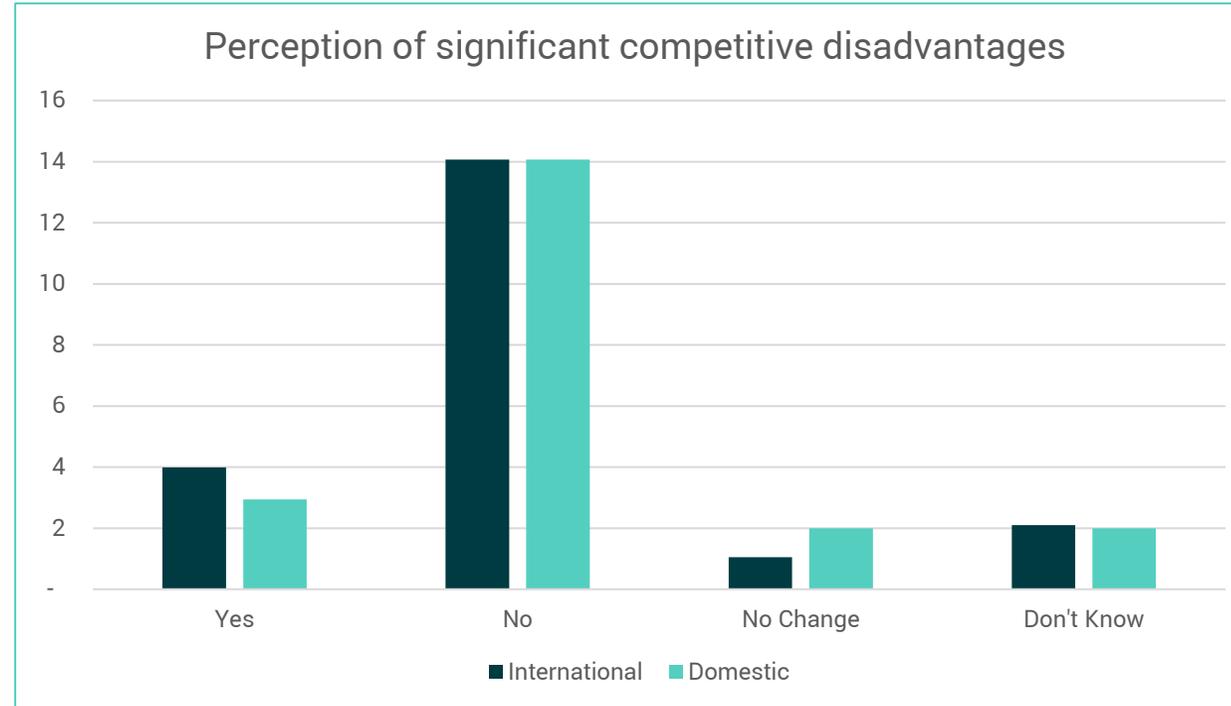


6g. Competition

Most Users did not perceive any significant domestic or international disadvantages to UK Insurers, were IFRS 17 to be adopted for use in the UK.

'Annuity providers in particular will need to show non-GAAP metrics to avoid negative effects to their share prices.'

'Most large international groups that are active in the UK market (particularly for retail insurance) are European will also have to adopt IFRS17'



'UK non-life insurers may see some increased volatility, but could benefit due to better explanation of profit emergence - so neutral overall. Plus still a focus on OCG under Solvency II'

'Everyone (even US GAAP) is moving in the direction of a more risk adjusted / market consistent accounting framework.'

The views expressed in this pack are not necessarily those of the UK Endorsement Board, nor are they necessarily reflective of any official policy or position. This publication forms part of the UK Endorsement Board's outreach activities in relation to the endorsement of IFRS 17 *Insurance Contracts*.

Should you be interested in being involved further with the endorsement process, please contact us at: IFRS17@endorsement-board.uk