



EY Global  
IFRS 9  
Insurance survey

# Table of contents

Survey highlights	1
Regulatory background	2
Participants' profile	4
Survey results	
1. Implementation status	5
2. Classification and measurement	13
3. Expected credit losses (ECL)	16
4. Hedge accounting	25
5. Disclosures	27
EY survey contacts	31

## About this survey

Many insurers will be implementing IFRS 9 *Financial Instruments* (IFRS 9) at the same time as IFRS 17 *Insurance Contracts* (IFRS 17). Much has been written about IFRS 17 implementation and about IFRS 9 implementation by banks. However, to date there has not been a large amount of focus on the implementation of IFRS 9 by insurers.

To provide EY clients with a broad view of the challenges of implementation, EY teams conducted a global survey involving insurers in more than 15 countries across Europe, Asia, Africa and the Americas.

We surveyed a mix of 20 top-tier global insurers, including a mix between life and non-life businesses, entities that are in the process of implementing the standard and entities that have already implemented IFRS 9 in 2018.

Considering this mix, the results of this survey provide a view of the challenges already faced by some insurers, as well as the current readiness status for those who have just started their IFRS 9 projects globally, including a comparative view of the key challenges observed by entities in these different regions and different stages of the project (e.g., early design or already reporting IFRS 9 results).





# Survey highlights

**45%** of the insurers are planning for a combined implementation of IFRS 9 and IFRS 17, of whom 60% are planning to use a similar implementation approach in the two programmes.

**75%** of the respondents have a separate budget for IFRS 9, of whom 53% expect to spend less than \$5 million on implementation, 20% expect these costs to be more than \$15 million and the remaining either don't know (14%) or expect a budget range between \$5-\$15 million (14%).

**>60%** of the respondents expect the IFRS 9 largest financial instrument category to be fair value through OCI.

**43%** responded they plan migrate from IAS 39 to IFRS 9 for Hedge Accounting.

**40%** are planning to build a new system for the IFRS 9 SPPI test.

**30%** of entities said they would not restate IFRS 9 comparatives, while 15% decided to restate comparatives.

**45%** of the respondents believe the reserve for Expected Credit Losses will increase with IFRS 9, although there is no consensus yet as to how much it would increase. Another 50% of respondents don't know yet how the ECL will impact their current reserves.

# Regulatory background

## Challenges and the dawn of a new world for insurance reporting

The International Accounting Standards Board (IASB or the Board) has been working on improving the current accounting standards for financial instruments and insurance contracts as weaknesses emerged, largely due to the lack of consistency and transparency of the current rules.

The new IFRS standards will aim to improve the comparability and transparency of accounting practices, especially through enhanced disclosure of valuation, performance and risk information, and the adoption of principles-based accounting frameworks.

The implementation of these accounting changes will require significant effort by insurance companies, in particular to design new valuation and reporting systems and gather data to meet the significant disclosure requirements. Companies will need to adopt new performance indicators, implement new systems for calculating and reporting cash flows and educate internal and external stakeholders on the impact of the new principles and how profits emerge.

IFRS 9 introduces changes to the accounting treatment of financial assets to address criticism regarding weaknesses of the existing accounting standard on financial instruments – IAS 39 – especially in relation to the delayed recognition of credit losses on loans and other financial instruments, which emerged during the financial crisis.

IFRS 9 is effective from 1 January 2018 and its key changes include:

- ▶ A more principle-based approach for the classification and measurement of financial assets that aims to improve consistency of financial reporting.
- ▶ A single forward-looking impairment model for assets at amortized cost (AC) or fair value through other comprehensive income (FVOCI), that requires

recognition of both incurred and expected credit losses on a probability weighted expected present value basis.

- ▶ A substantially reformed and simplified hedge accounting model that requires enhanced risk management disclosure and closer alignment with risk management strategies.

### Interaction with IFRS 17

On 18 May 2017 the IASB issued the new accounting standard for insurance contracts, IFRS 17. The effective date in the standard as issued is for annual reporting periods starting on or after 1 January 2021 and it will represent the most significant change to insurance accounting requirements in 20 years, requiring insurers to entirely revisit their financial statements.

Given this timing, insurers expressed concerns that the introduction of IFRS 17 was not aligned with IFRS 9, which became effective on 1 January 2018. In response, the IASB issued amendments to IFRS 4 *Insurance contracts* (IFRS 4) to address the issue of the different effective dates of IFRS 9 and IFRS 17. Entities the main activity of which is to issue insurance contracts will still be able to adopt IFRS 9 on 1 January 2018, but the amendments introduced two alternative options for these entities: (i) a temporary exemption; or (ii) an overlay approach.

The temporary exemption enables eligible entities to defer the implementation of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss (P&L) the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied.

For more information, see our [Insurance accounting alert – September 2016 edition](#).

## IASB agrees to defer IFRS 17 to 2022

At its Board meeting on Wednesday 14 November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 by one year to reporting periods beginning on or after 1 January 2022. This means that insurers could apply both standards for the first time in reporting periods beginning on or after 1 January 2022.

At its meeting on 09 April 2019, the Board confirmed its tentative decisions to defer the effective date of IFRS 17 and to extend the temporary exemption (for qualifying entities) from applying IFRS 9 by one year.

### How we see it

Many insurers will welcome the Board's decision to extend the temporary exemption to applying IFRS 9 by one year because this will allow them to keep the implementation dates of both standards aligned.

## IASB proposes further changes to IFRS 17 with an impact on IFRS 9

1. At its meeting on 7 February 2019, the Board tentatively amended the scope of IFRS 9 and IFRS 17 for contracts with insurance risk arising only from the settlement of some or all of the obligation created by the contract itself, for example, a loan

with a waiver upon death. The amendment would enable entities issuing such contracts to apply either IFRS 17 or IFRS 9. The election would be made at a portfolio level.

### How we see it

Banks and other non-insurance financial institutions will welcome the opportunity to apply IFRS 9 to loans that they issue that transfer significant insurance risk, but for which, the only insurance cover in the contract is for the settlement of some or all of the obligation created by the contract.

2. At its meeting on 14 March 2019, the Board tentatively decided to exclude from the scope of IFRS 17 credit cards that provide insurance coverage for which the entity does not reflect the individual customer's insurance risk in setting the price of the contract with that customer.

### How we see it

Banks and other non-insurers will welcome the opportunity to apply IFRS 9 to certain credit card contracts that include the transfer of insurance risk.

# Participants' profile

We surveyed 20 top-tier global IFRS reporting insurers, of which:

20%

operate exclusively in the life insurance industry

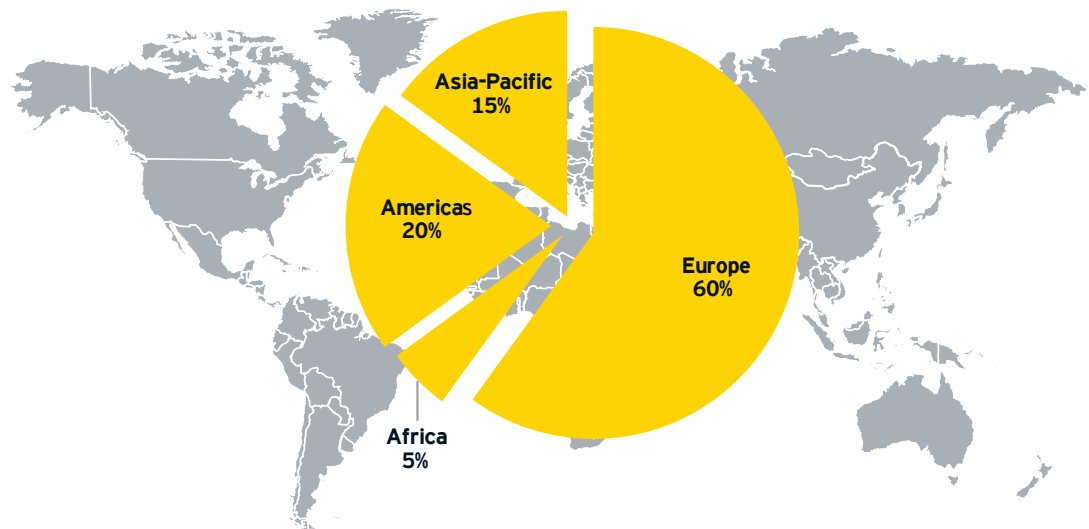
5%

operate exclusively in the P&C insurance industry

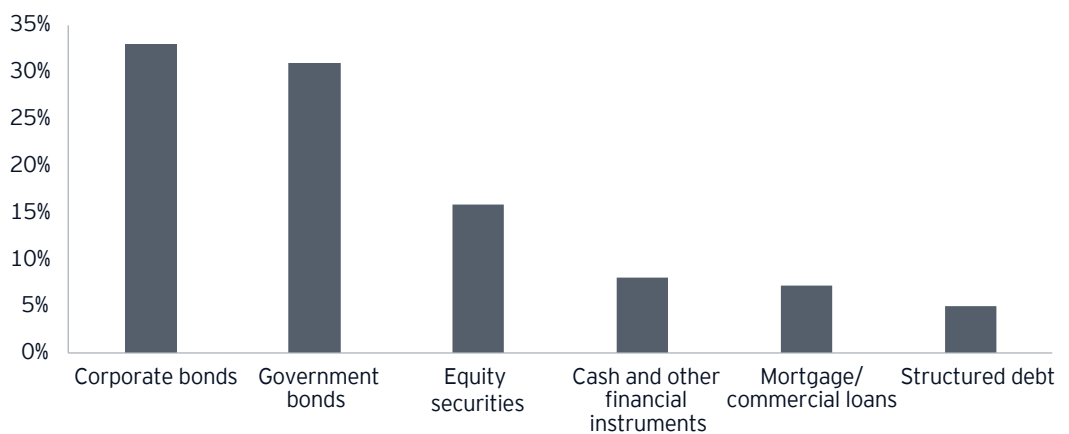
75%

are mixed life and non-life (composite) insurers

## Location of participants



Approximate percentage of total investment portfolio of respondents, including loans (in %)



Survey results:

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# 1 Implementation status

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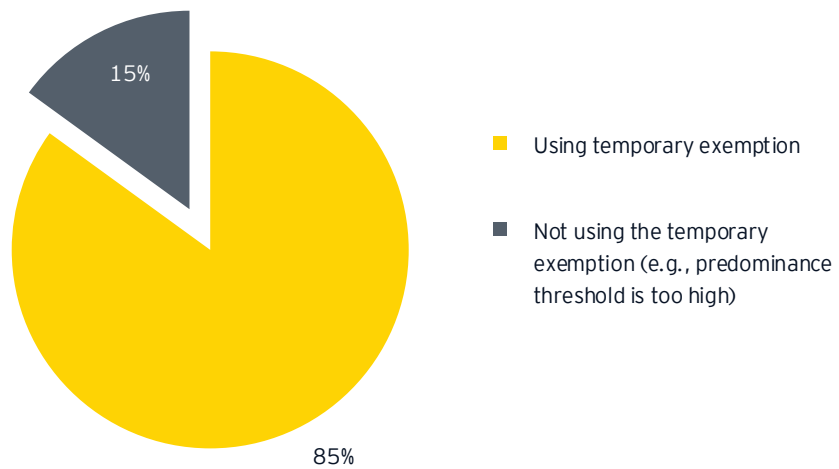


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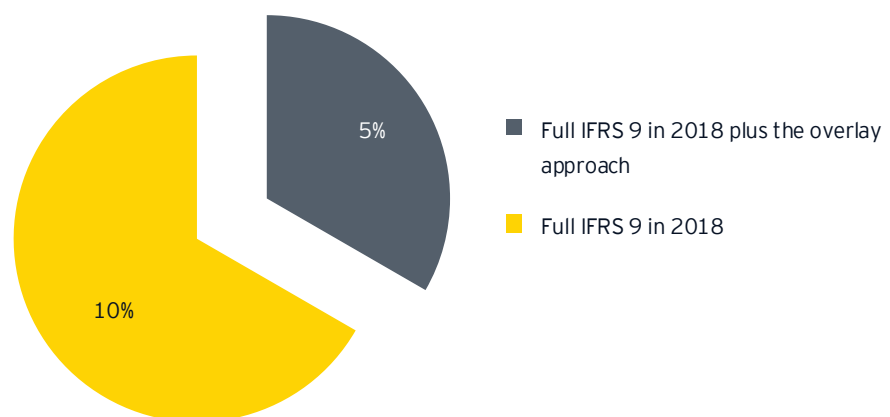
## Implementation status

### 1.1 IFRS 9 approach being considered by the surveyed entities

#### a. Entities using the temporary exemption:



#### b. Entities applying full IFRS 9 in 2018 (with or without the use of the overlay approach):





## Overview of findings

The majority of respondents are opting to defer application of IFRS 9 to apply it together with IFRS 17. This is due to the fact that these insurers' activities are predominantly connected with insurance (i.e., passed the eligibility test criteria for the temporary exemption).

Most insurers in Europe, Americas and Asia-Pacific intend to use the temporary exemption from applying IFRS 9 at the group level. And circa 24% of the entities deferring IFRS 9, also mentioned they will still need to apply the standard to some of the entities within their structure (i.e., mainly non-insurance entities, such as banks and asset managers).

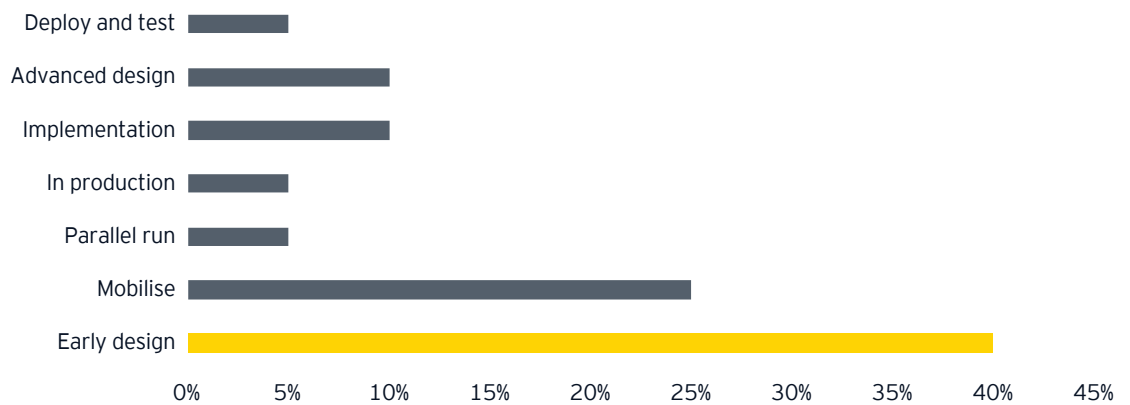
Because the Board decided that the temporary exemption should be optional rather than mandatory, insurers that opt for it are still required to prepare certain disclosures that explain how it qualified for the temporary exemption, and allow comparison with other entities applying IFRS 9.

Other 10% of the surveyed insurers, however, have already applied full IFRS 9, mainly because they are part of a group that adopted IFRS 9 in 2018, such as bancassurers. Additionally, 5% of the respondents mentioned they have opted for the overlay approach, allowing them to report the effects of certain accounting mismatches in other comprehensive income (OCI) until the date of initial application of IFRS 17.

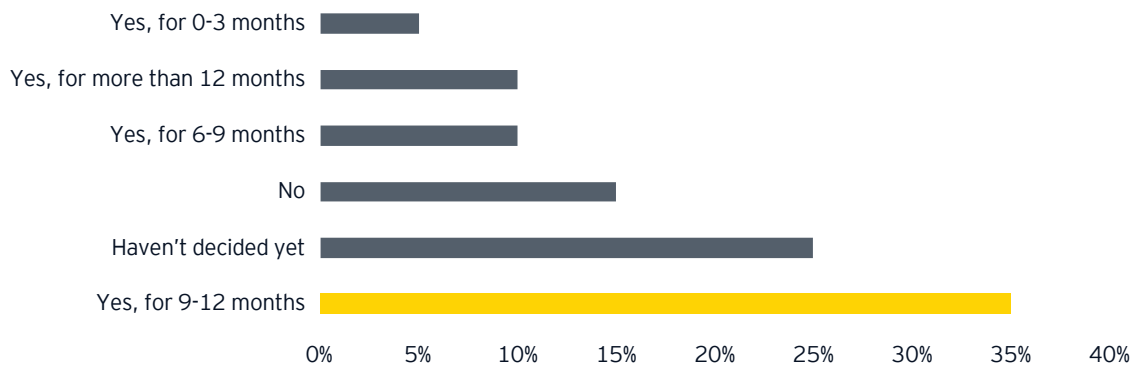
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## Implementation status

### 1.2 Stage of IFRS 9 implementation



### 1.3 Are entities planning for a parallel run?



## Overview of findings

All respondents have already embarked on an implementation project for the new standard although entities are in different stages of implementation.

Most of the respondents have either started designing and building their infrastructure or are mobilising teams to start the implementation programme.

Around 5% of entities are already in the process of deploying, testing and implementing IFRS 9. In most cases, these are also entities being affected by non-insurance businesses that do not benefit from the temporary exemption in IFRS 4.

Most insurers are also planning to undertake a parallel run for between 9 to 12 months before implementation date. However around 25% of the respondents have not yet decided on the number of months they will run the new standard in parallel with IAS 39.

For some insurers the implementation of IFRS 9 does not represent a major transformation program, especially when compared to Solvency II and IFRS 17.

Nevertheless, there are important points to be considered for IFRS 9 implementation that should not be ignored, such as: assessing investment policies and front-office training, updating systems to accommodate the new classification & measurement categories – including the analysis of contractual cash flow characteristics (the “SPPI test”<sup>1</sup>), alignment of business models<sup>2</sup> with new liability measurement under IFRS 17, and – most importantly – having a complete and accurate set of investment data to calculate and track expected credit losses in the three stages under IFRS 9. Therefore, it is important that entities do not underestimate the efforts needed for compliance with the standard. Considering these points, we expect most companies that deferred the implementation of IFRS 9 to 2022 are focusing their efforts on the choice and implementation of the new solution architecture for the overall IFRS reporting process.

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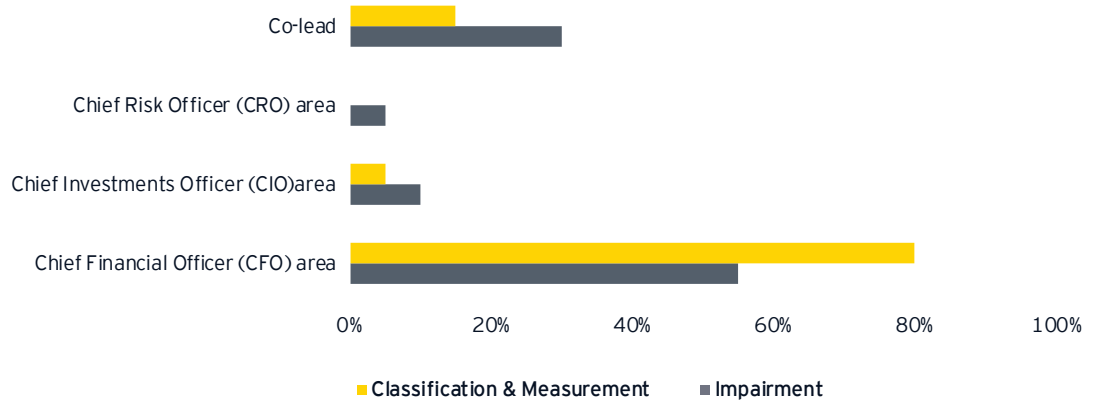
<sup>1</sup> The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are “solely payments of principal and interest on the principal amount outstanding”. Hence, the assessment is colloquially referred to as the “SPPI test”. For more information, see our publication [“Applying IFRS: Classification of financial instruments under IFRS 9”](#)

<sup>2</sup> An entity’s business model reflects how it manages its financial assets in order to generate cash flows. Its business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

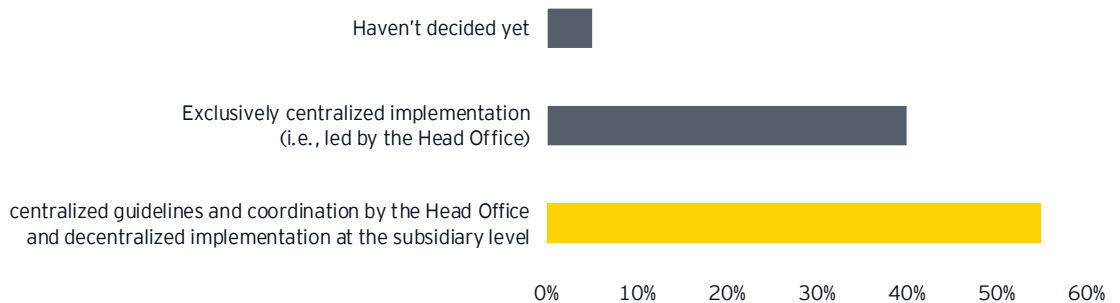
# 1

## Implementation status

### 1.4 IFRS 9 implementation leader



### 1.5 Centralized versus decentralized implementation



### Overview of findings

In terms of the governance to lead the IFRS 9 project implementation, more than half of the respondents have assigned their Chief Financial Officer (CFO) to take the lead. 30% of the insurers have chosen a joint governance between two or more areas (e.g., CFO, CIO, CRO).

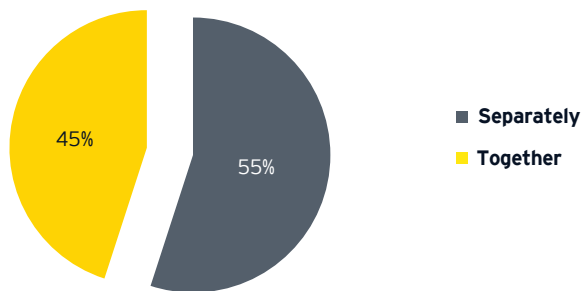
Most insurers will have a centralized implementation plan, with guidelines and coordination coming from the Head Office to the subsidiaries, and a decentralized implementation at the subsidiary level.

A detailed scoping exercise involving selected subject matter experts (SME) across key functions is required at the programme inception and it should include

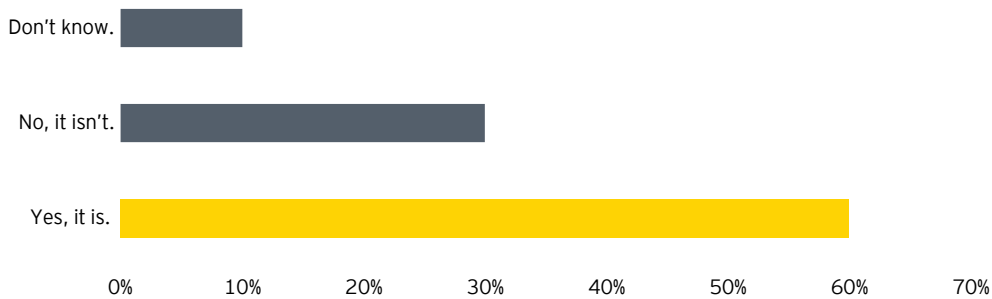
clear decisions about which legacy processes the programme will change, and the resultant impact. Multiple review cycles of the scoping exercise should be performed involving business analysts close to the detail from all relevant areas.

For larger programmes, Senior Programme Directors should also be involved as early as possible to help focus on stakeholder management and key design decisions, such as the solution to calculate the expected credit losses. Likewise, a full-time governance structure (including Steering Committees, Design Authorities and Working Groups) should be established early to focus on delivery of the programme.

## 1.6 Implementation of IFRS 9 with IFRS 17 – together versus separately



## 1.7 Is the IFRS 9 implementation approach similar to the IFRS 17 implementation approach?



### Overview of findings

Although there is no consensus among respondents on whether to have IFRS 9 and IFRS 17 implementations managed together or separately, 60% of insurers have structured their programmes in a similar way, e.g., using a combined timeline for key deliverables, combined accounting system changes, aligned governance structures for communication of key decisions and steering of the project, etc.

A key consideration for implementation of IFRS 9 in connection with IFRS 17 is to ensure that the suitable accounting policy choices are made for both assets and liabilities. In accordance with IFRS 17, entities make an accounting policy choice between presenting insurance finance income or expense (IFIE) in P&L or disaggregate it between P&L and OCI on a portfolio by

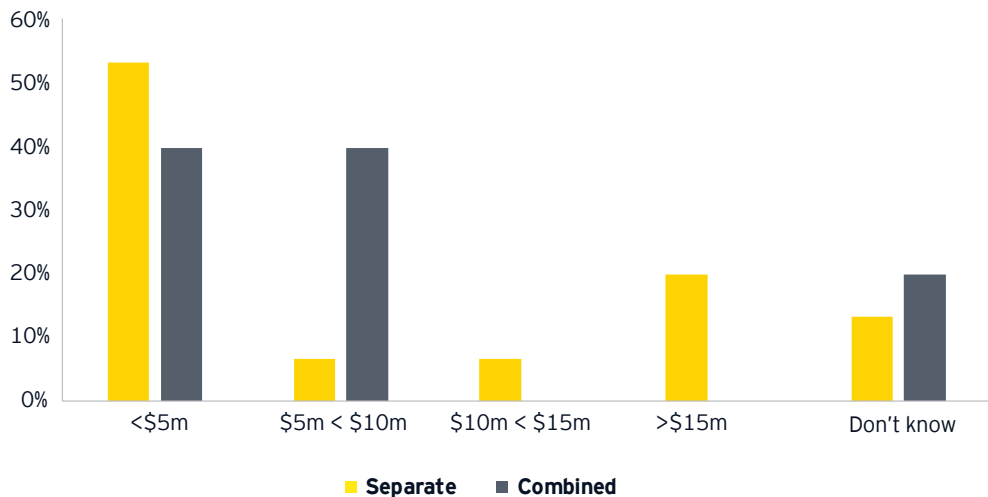
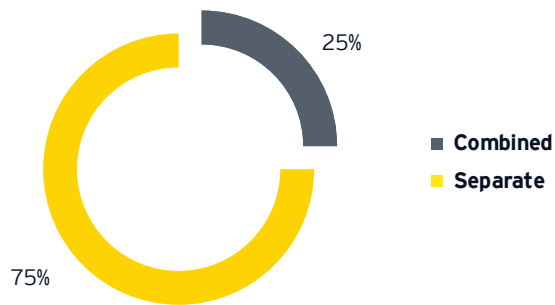
portfolio basis. This allows entities to reduce interest rate volatility in P&L if used together with the FVOCI classification for related assets.

Another key consideration is the extent to which implementation projects should consider both standards together. For example, changes will be required for the accounting manuals, charts of accounts and financial statements, and entities should consider the impact of both standards together when making these changes. However, processes for managing and reporting investments are often undertaken by different departments within insurance groups from those which are responsible for reporting and measuring liabilities. This would imply that part of the project may be delegated to separate teams.

# 1

## Implementation status

### 1.8 Budget allocated to the IFRS 9 project – combined with IFRS 17 versus separately



#### Overview of findings

Most of the respondents have a separately allocated budget for IFRS 9, while a small number of insurers have combined their budget for both the IFRS 17 and nine projects.

Most of the insurers are expecting less than \$5 million to be spent in implementing IFRS 9, in comparison with a portion of respondents in Europe and Asia who expect these costs to raise up to \$10 million.

It is possible that these budgets will be revisited with the new implementation date for IFRS 17 and the extension of the IFRS 4 exemptions, which could allow entities to run additional tests in their accounting systems to understand the financial impacts of the two standards taken as a whole.

The expected budget for IFRS 9 implementation reflects the size of the insurer and the complexity of their portfolio. Forecast, plans and budgets need to be in line with the IFRS 9 requirements and the entity infrastructure should be in place to facilitate this, for example – should companies consider a more complex system & process structure in order to accommodate the new classification, measurement and expected credit losses methodologies? Entities with smaller portfolios and minimal exposure to amortized cost & FVOCI may prefer an approach to make changes of existing data bases & systems as opposed to undergo a complete transformation of their financial processes.



Survey results:

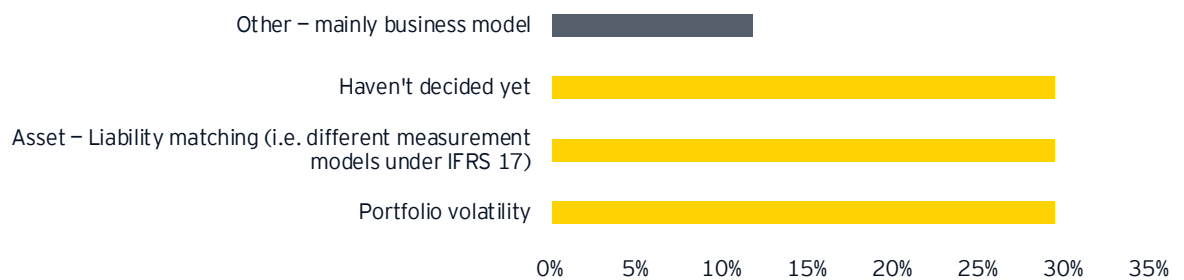
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# 2 Classification and measurement

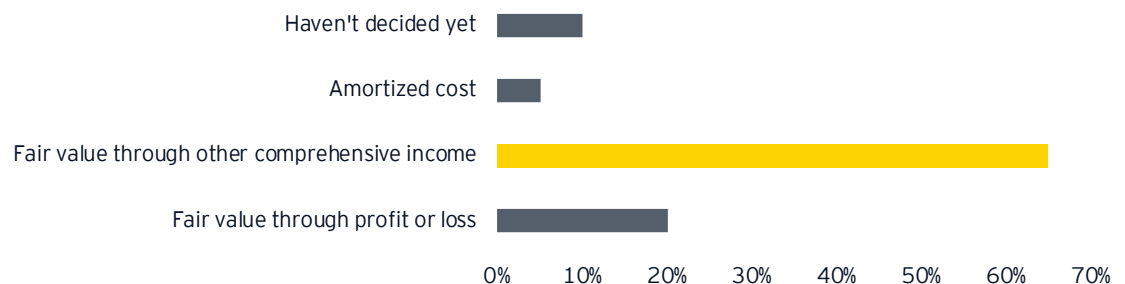
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# Classification and measurement

## 2.1 Main drivers for the classification and measurement of assets, in light of the interactions with IFRS 17 – Insurance contracts



## 2.2 Expected largest categories of classification and measurement of financial instruments, after IFRS 9 is implemented



### Overview of findings

Insurers across different regions have different views of the main drivers for IFRS 9 classification & measurement (C&M). Respondents in Asia claimed that they would focus on the alignment between IFRS 9 and IFRS 17 by matching assets and liabilities. European insurers, meanwhile, are divided between managing their portfolio volatility, (i.e., minimize the financial impact between IFRS 9 and IAS 39) or the asset-liability matching with IFRS 17. Most of the insurers in the Americas are also focusing on their portfolio volatility, in line with some European players. However, the majority of the respondents still haven't decided the key main drivers that will impact the C&M in light of the implementation of IFRS 9 together with IFRS 17.

Most insurers agreed that FVOCI will be the largest classification of financial assets. Further inquiry shows that 90% of the respondents believe their investments in debt securities will already qualify as either amortized cost or FVOCI.

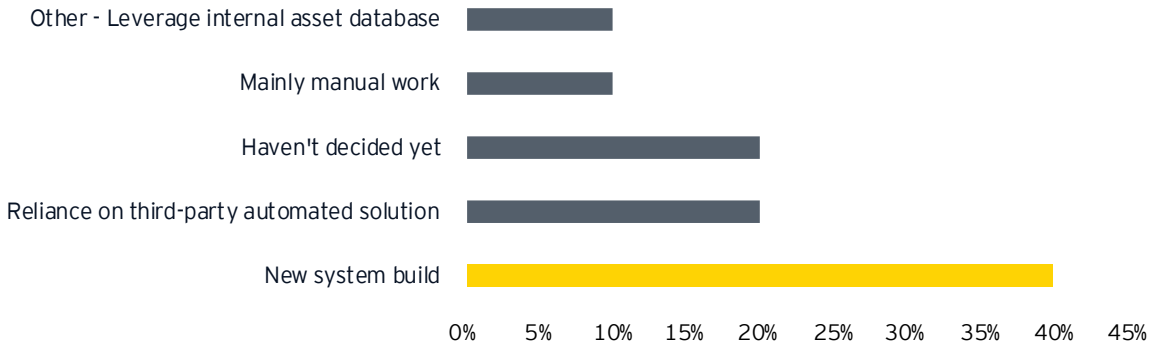
Other insurers also indicated they have a plan in place to manage their financial asset portfolio by focusing their investments on: (i) assets that would pass the SPPI test (e.g., "plain vanilla" bonds); and (ii) opting for a business model of both collecting contractual cash flows and selling financial assets. The combination of (i) and (ii) would allow these entities to continue to measure these portfolios on a FVOCI basis.

Under IFRS 17, entities have an accounting policy choice, at a portfolio level, to recognize the impacts of IFIE directly in P&L or split it between P&L and OCI<sup>3</sup>. Thus, some insurers may also be revisiting their business models to understand which accounting mismatches arise between financial instruments and insurance liabilities, and how these accounting mismatches can be reduced (e.g., by modifying business models, using hedge accounting and other risk mitigation techniques, etc.).

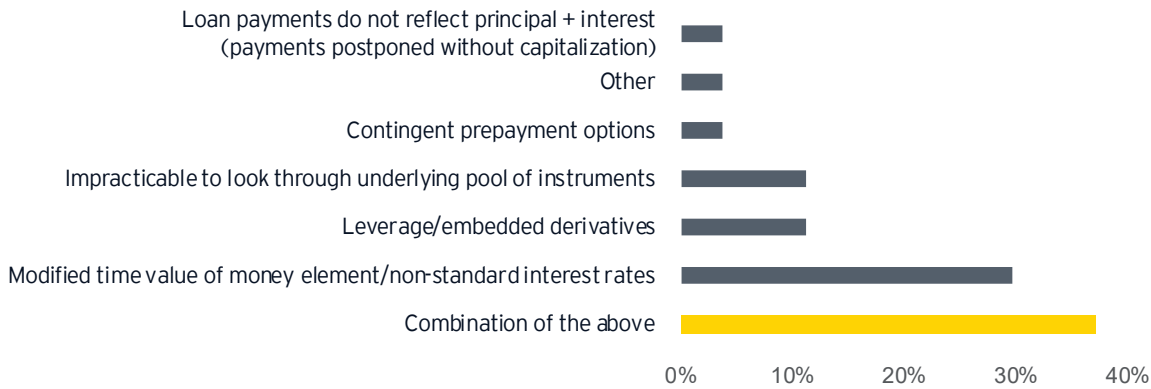
<sup>3</sup> The accounting choice will vary depending on the measurement model used to measure insurance liabilities, either the general model (GM) or the variable fee approach (VFA) (IFRS 17.88-89).



### 2.3 How entities are planning to perform the “SPPI test”



### 2.4 Expected drivers for failing the “SPPI test”



### Overview of findings

When asked about the methodology that will be applied to perform the “SPPI test” most respondents reported that they were focusing on building a new system. Respondents who had already started their implementation and are either in the mobilization, test, or production phases of their programmes had already started to build their own systems for the SPPI test. Other insurers that are still in the design stage plan to either rely on third-party automated solutions or still haven’t decided on the approach to be taken.

Only one insurer is considering to use a manual process, as it has a non-complex small portfolio.

Another respondent indicated that they would be able to leverage existing internal databases, showing that some entities may already have internal information that allows for the SPPI test to be performed.

Most respondents indicated that a combination of factors can contribute to an asset failing the SPPI test. The modified time-value of money element in some instruments and non-standard interest rates were the biggest contributors.

Survey results:

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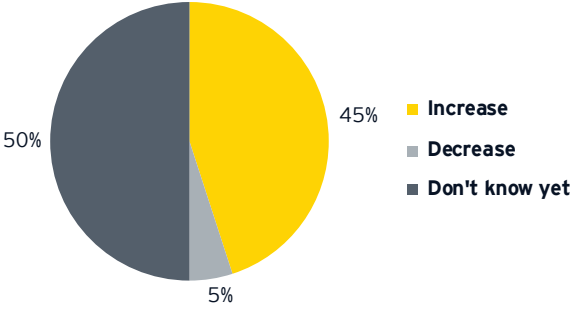
# 3 Expected credit losses (ECL)

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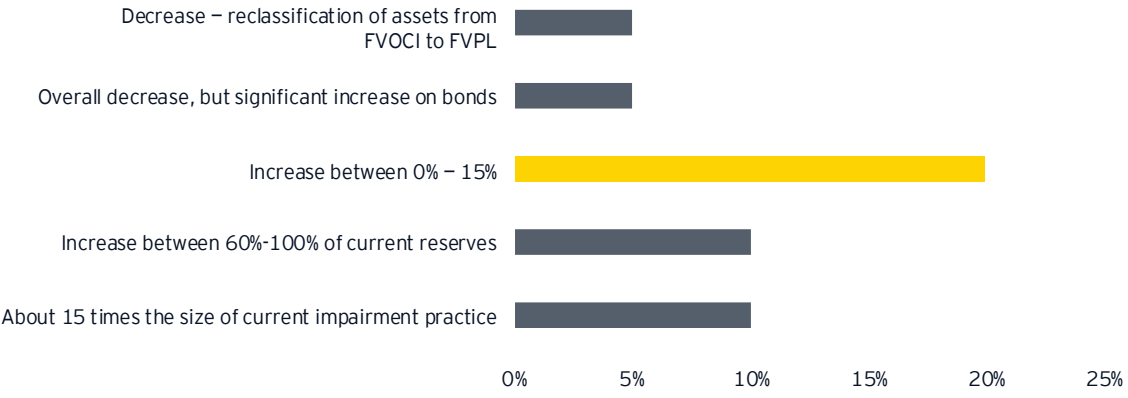


# Expected credit losses (ECL)

## 3.1 IFRS 9 ECL reserve versus IAS 39 Impairment reserve



3.1.a Per the chart above, 52% of respondents believe that their ECL reserve will change. Of those expecting a change, the change and reason for it is reflected below:



### Overview of findings

The expected change in impairment provisions on transition to IFRS 9 varies significantly across insurers. While 50% of the respondents don't know yet if IFRS 9 ECL will increase or decrease their loss reserves, 45% believe it will increase.

Additionally, about 5% of the respondents believe their reserves will decrease as a consequence of the reclassification of assets measured at available-for-sale ("AFS") and amortized cost ("AC")

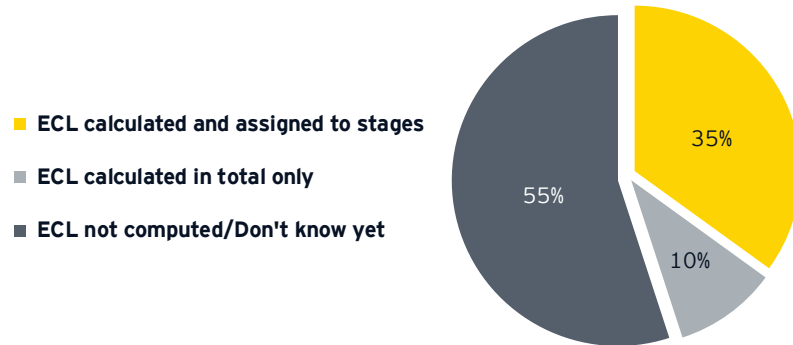
under IAS 39 versus the number of qualifying assets measured at FVOCI and AC under IFRS 9.

Of the insurers that do expect an increase in their reserves, almost 20% expect a significant increase, ranging between 60%-100% to a more substantial 15 times more than current practice. Another 19% of the respondents expect an increase between 0%-15% in the ECL reserves as a result of the new methodology.

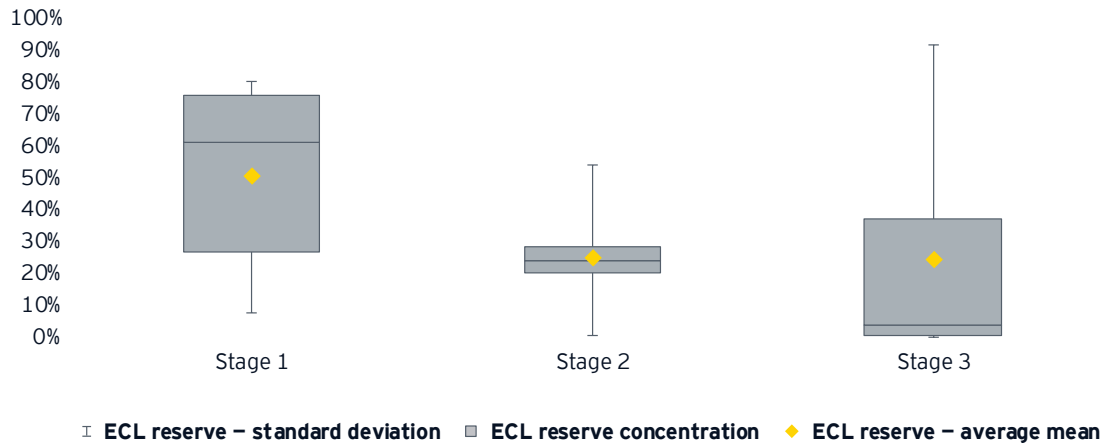
# 3

## Expected credit losses (ECL)

### 3.2 ECL calculation status and allocation to stages 1-3



3.2.a Per responses above, 35% of respondents have calculated & assigned ECL to stages. The charts below shows their expected ECL reserve allocation, by stage



### Overview of findings

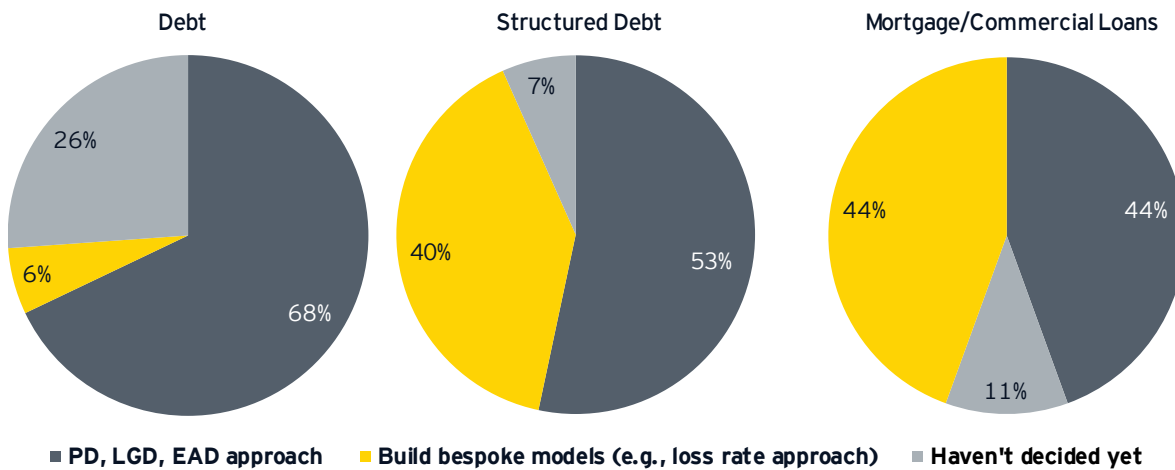
Although the majority of the respondents have not started to calculate the ECL reserves, about 10% of the surveyed entities initiated an ECL impact assessment and another 35% have already calculated the ECL and allocated to the different stages.

In relation to concentration of reserves to different stages, respondents presented a diverse view, with 43% expecting Stage 1 ECL to represent up to 80% of the reserve, and others expecting it to represent 8% of the reserves.

The fluctuation shown may be related to the diversity of insurance products currently available in the industry, with some products requiring more complex investment structures to cover it. And although many insurers were risk-adverse in the past, some companies seem to be investing in more complex securities and expanding on risk-appetite, which can also lead to different ECL reserves.

The gap in the concentration of ECL reserve may become smaller as insurers advance on their IFRS 9 programmes and have more available information about their loss methodologies.

### 3.3 How entities are modelling the IFRS 9 ECL?



\* PD – Probability of default, LGD – Loss given default, EAD – Exposure at default

#### Overview of findings

Most insurers have decided to use the Probability of Default x Loss Given Default x Exposure at Default (“PD x LGD x EAD”) approach to estimate the expected credit losses of their financial assets. Insurers plan to apply this method mostly to Debt securities and Structured Debt, although some respondents in Europe and Asia are also planning to use this approach for their loans.

Two respondents in Asia and Europe are also considering building internal bespoke models:

- ▶ One Asian insurer is considering to develop specific bespoke models for their debt instruments (e.g., by using the loss rate approach or choosing a different range of “days past due” for similar products), while still applying the “PD x LGD x EAD” approach to loans.

- ▶ An European insurer is planning the opposite by using bespoke models for loans and using a general approach for the other debt instruments.

One insurer in Asia-Pacific is also considering to use “transition matrices”<sup>4</sup> for their loans and structured debt, which would help determine the probabilities of all future developments that end-up in the ECL. For each possible future development a probability would be estimated using statistical modelling techniques.

Some insurers (on average 27%) haven’t decided yet on which models to use, and another group of insurers (circa 47%) have not decided which approach to take on the ECL for their loan portfolios.

<sup>4</sup> A “transition matrix” consists of a square matrix that gives the probabilities of different states moving from one to another. It allows an entity to determine trends and make predictions on future events, such as the probability of an asset defaulting in the future.

# 3

## Expected credit losses (ECL)

### 3.4 How to calculate the PD and LGD for IFRS 9 purposes?



#### Overview of findings

Respondents were asked about their plans to calculate the PD (probability of default) and the LGD (loss given default).

The majority of insurers in all regions surveyed stated that their PD and LGD calculations would preferably rely on expert judgment and data from external sources, such as S&P and Moody's.

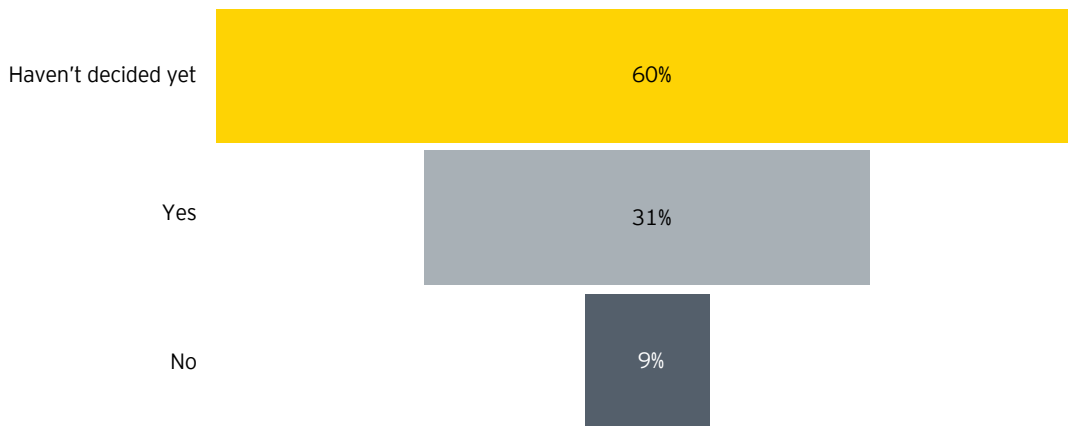
Interestingly, some insurers were planning to use a mix of all the sources above so that they have different calibrations for PD and LGD. Another group of European and Asian insurers also showed interest

in using a different approach to PD and LGD, mostly relying on "Point-in-Time" calibration of scorecards, as well as expert judgment and external data.

Other European insurers are also planning to rely on "Point-in-Time" estimates that are already in place in their organizations, as well as historical loss rates/roll rates. They plan to apply this plan for both of their PD and LGD calculations.

About 30% of the respondents have not decided yet on their approach to apply PD and LGD.

### 3.5 Does the definition of default imply contagion across all exposures from the same counterparty?



#### Overview of findings

Most of the respondents (circa 60%) have not yet decided on whether their definition of default will include contagion across all exposures – i.e., in case of significant increase or default of one exposure, all exposures from the counterparty are transferred to stage 2 or stage 3 ECL.

About 31% of the respondents indicated that they do intend to apply contagion to all the assets in their portfolio and about 16% of the respondents are considering it for at least part of their portfolio (mainly debt securities, followed by structured debt and loans).

At this stage only one insurer has already decided not to use contagion as part of their default definition.

#### Comparison with the Banking industry benchmark

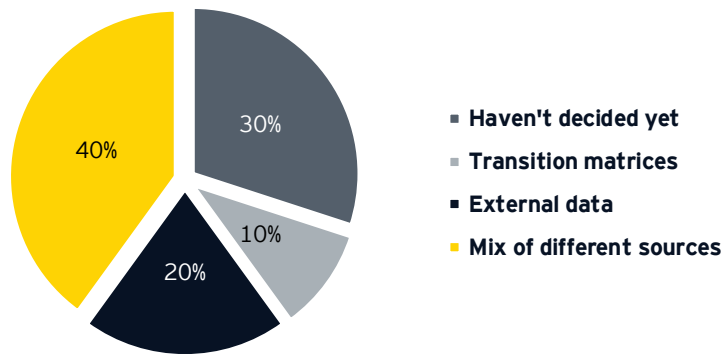
When a similar question was asked to the Banking industry in the EY IFRS 9 Banking survey 2016, around half of respondents mentioned that they intended to apply a cross-asset contagion for retail exposures, while two thirds intended to do so for corporate exposures with the same borrower. Data limitation was mentioned at the time as one of the reasons for not applying a cross-asset contagion over their assets.

Finally, at the time many banks did not see the contagion application as an automatic process, but one that could involve expert judgment and management review to facilitate their decision.

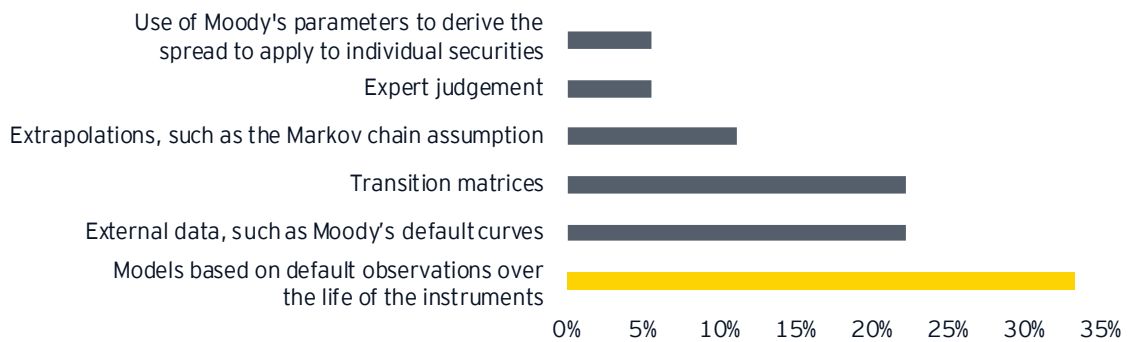
# 3

## Expected credit losses (ECL)

### 3.6 How entities are estimating lifetime PDs for IFRS 9?



#### 3.6.a When using a mix of different sources, the respondents mentioned the following sources:



#### Overview of findings

Some insurers (40%) consider using a combination of methods to estimate lifetime PDs, including: models based on default observations over the life of the instruments (circa 30%), followed by external data, such as Moody's default curves (circa 22%) and transition matrices (circa 22%).

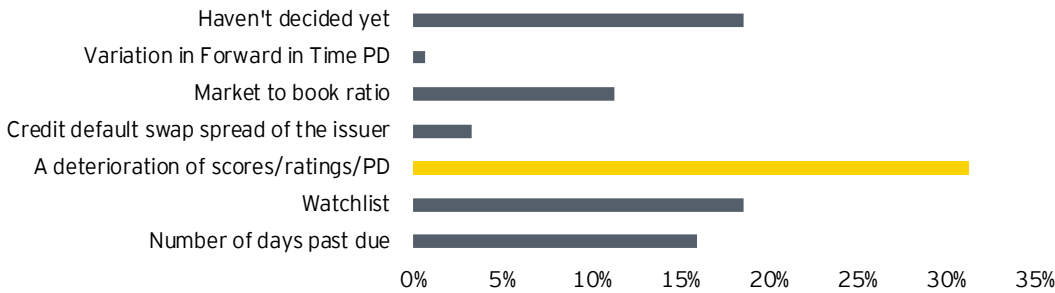
However, about 30% of the respondents have not decided yet on the approach they will use for estimating lifetime PDs.

Given that different sources can be used for estimating lifetime PDs, we expect this to be an area where users of the financial statements would be keen to understand the methodologies applied by the entity.

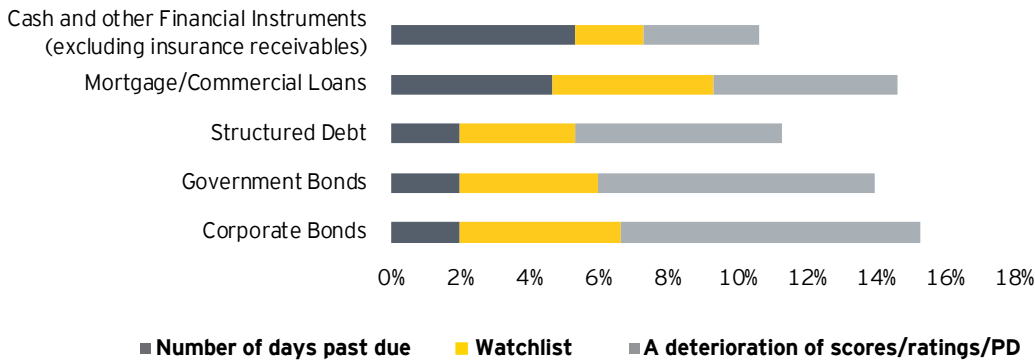
We would also expect the use of different approaches for different portfolios or products, such as debt securities and loans.



### 3.7 Primary individual indicators to identify a significant deterioration



#### 3.7.a Key indicators by class of financial asset



#### Overview of findings

The majority of the respondents (c.70%) indicated three main items as primary indicators of a significant deterioration in credit risk:

- ▶ Deterioration in the scores/ratings and probability of default (c.31%)
- ▶ Number of days past due (c.16%); and
- ▶ Watchlist<sup>5</sup> (c. 19%)

The level of focus on each indicator depends on the class of financial asset, with corporate and government bonds relying mainly on credit rating deterioration, whereas cash and other financial instruments have a higher focus on the number of days past due to calculate the deterioration impacts.

About 19% of the insurers, however, have not decided on which primary deterioration indicators they will use as part of their forward looking assessment.

#### Comparison with the Banking industry benchmark

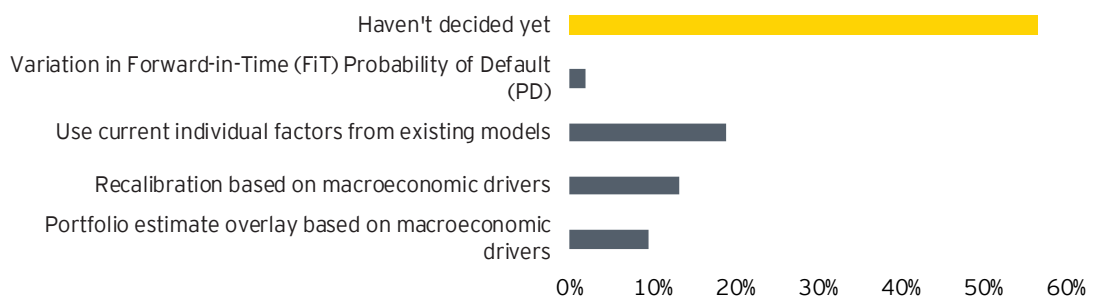
When asked a similar question, banks considered using a combination of quantitative and qualitative drivers structured as primary and secondary drivers, plus backstops. The primary driver is meant to be the most early indicator and is generally based on a relative measure while the others cover more obvious (absolute) signs of deterioration such as forbearance or delinquency.

<sup>5</sup> A watchlist is used to monitor assets that are of concern to the entity, e.g., monitoring potential indicators of significant deterioration in credit risk.

# 3

## Expected credit losses (ECL)

### 3.8 How entities are planning to incorporate forward-looking information in the assessment of significant deterioration?

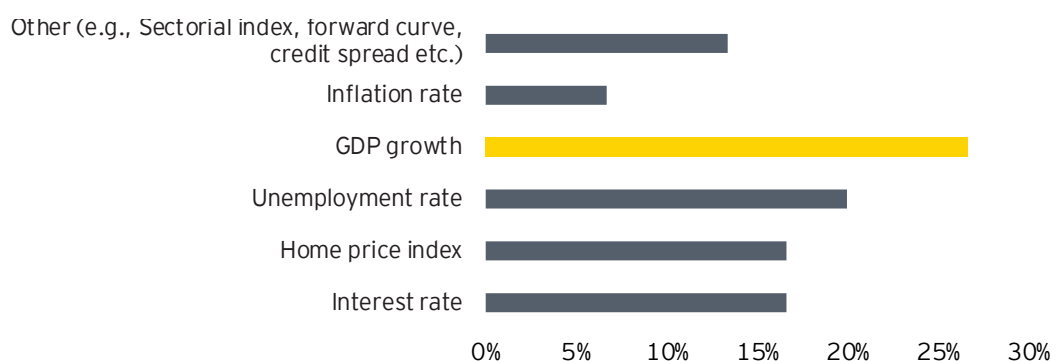


#### Overview of findings

Most insurers have not yet decided how they will incorporate forward looking information into their assessment of significant deterioration, but some insurers with a debt securities portfolio, mostly in Europe, have expressed some plans to use a mix of recalibration based on macroeconomic drivers &

current individual factors from existing models. Other insurers with mortgage and commercial loan portfolios plan to add an overlay in order to be able to capture significant macroeconomic drivers, such as inflation or unemployment, i.e., 'a portfolio estimate overlay based on macroeconomic drivers'.

### 3.9 Macroeconomic factors preferred by respondents



#### Overview of findings

Although half of the respondents haven't decided yet on which macroeconomic factors they expect to use, the other half of the respondents have indicated they will use a factor or a combination of factors to help determine significant deterioration by security type. Some of the preferred items mentioned by respondents

included "GDP growth" and "Unemployment rate" – although this can vary according to the financial instrument type: house prices was mentioned by some insurers as one of the relevant macroeconomic factors for mortgage loans.



Survey results:

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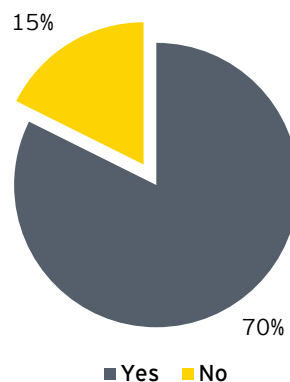
# 4 Hedge accounting

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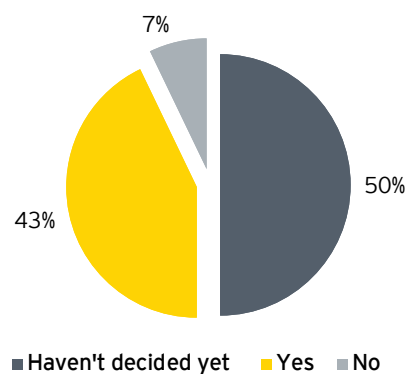
# 4

## Hedge accounting

### 4.1 Have you been applying hedge accounting in accordance with IAS 39?



### 4.2 For respondents that answered "yes" above. Do you intend to migrate from IAS 39 hedge accounting to the IFRS 9 hedge accounting rules?



### Overview of findings

IFRS 9 increased the application scope and flexibility so that more hedge activities become eligible for hedge accounting.

Although IFRS 9 covers hedge accounting, the IASB provided entities with an accounting policy choice on introduction of the new standard to either continue to apply the hedge accounting requirements of IAS 39 until the IASB's macro hedging project is finalized, or apply IFRS 9 (with the scope exception only for fair value macro hedges of interest rate risk).

This accounting policy choice will apply to all hedge accounting and cannot be made on a hedge-by-hedge basis.

We asked the survey participants whether they already use IAS 39 for hedge accounting, and 70% of the respondents confirmed that they did.

Circa 43% of these respondents have reached a decision to apply IFRS 9 hedge accounting once the new standard becomes effective. However, regardless of the flexibility offered in IFRS 9, 50% of the respondents haven't made a decision on what standard to follow for hedge accounting.



Survey results:

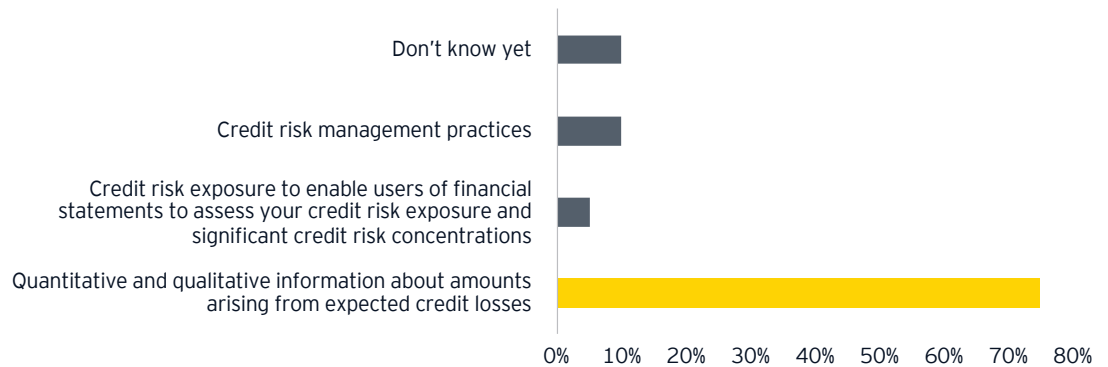
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# 5 Disclosures

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# Disclosures

## 5.1 Disclosure items entities most expected to require significant effort and changes to systems & data



### Overview of findings

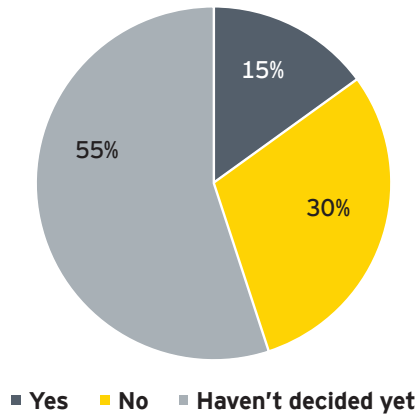
Most of the respondents (c. 75%) expect that ECL quantitative and qualitative information will require the most significant effort and changes in their systems and data architecture. This will be dependant on the expectation that most insurers will continue to measure assets at FVOCI – however this position may change once insurers start reviewing the classification of insurance liabilities under IFRS 17.

Due to the extension provided by IASB to insurers who adopted the temporary exemption to implement

IFRS 9 in connection with IFRS 17, we anticipate that insurers will seek for financial instrument disclosures to be aligned with the disclosure of insurance contract liabilities, including an assessment of where assets are invested to back these insurance liabilities.

In addition, we expect insurers to increase the credit risk disclosures and provide more information about their credit risk assessments, reflecting the ECL models adopted by each entity.

## 5.2 Do you plan to restate comparative information on the IFRS 9 application?



### Overview of findings

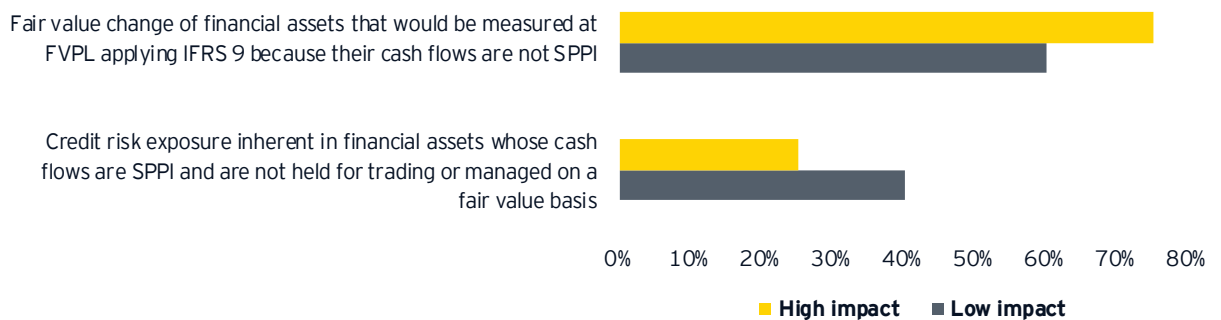
IFRS 9 does not require restatement of comparative period financial statements, except in limited circumstances related to hedge accounting; however, entities may choose to restate if they want to and can do so without the use of hindsight.

When asked about this topic, more than two-thirds of the insurers in Europe and Americas shared that they have not yet decided on whether to restate their comparatives in accordance with IFRS 9. We expect

that some entities will balance whether it would make sense to restate IFRS 9 in order to align the presentation of assets to the disclosure of insurance liabilities from IFRS 17 in the comparative period.

We also note that entities that opt for not restating comparative periods will continue to present IAS 39 for their comparative information.

### 5.3 Biggest operational impacts observed by insurers applying the temporary exemption disclosures



#### Overview of findings

To provide information on the characteristics of its financial assets, entities that applied the temporary exemption are required to disclose the fair value at the end of the reporting period and the amount of change in the fair value during the period for financial assets that met the SPPI test and for assets that did not meet the SPPI test.

The majority of the respondents indicated this disclosure represented the biggest operational impact to comply with the disclosure requirements for the temporary exemption to IFRS 9.

In addition, insurers that opted for the temporary exemption are also required to disclose information

about the credit characteristics of its financial assets by presenting: (i) the gross carrying amounts under IAS 39 aggregated by credit risk rating grades (as defined in IFRS 7); and (ii) for financial assets that passed the SPPI test and do not have low credit risk, disclose the fair value and the gross carrying amounts under IAS 39.

Circa 24% of the respondents, considered this disclosure offered a higher operational impact compared to the fair value change disclosure, mainly due to additional missing data to purchase to data providers.



# EY survey contacts



## Kevin S Griffith

EY Global Accounting  
Change Leader  
kgriffith@uk.ey.com



## Camile Paparelli

Senior Manager – United Kingdom  
cpaparelli@uk.ey.com  
Ernst & Young LLP



## Andrew Gallacher

Partner – Switzerland  
andrew.gallacher@ch.ey.com  
Ernst & Young Ltd



## Roger Spichiger

Executive director – Switzerland  
roger.spichiger@ch.ey.com  
Ernst & Young Ltd



## Thomas Kagermeier

Partner – Germany  
thomas.kagermeier@de.ey.com  
Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft



## Carla Pereira

Senior Manager – Portugal  
carla.pereira@pt.ey.com  
Ernst & Young, S.A.



## Guillaume Fontaine

Partner – France  
guillaume.fontaine@fr.ey.com  
Ernst & Young et Associés



## Karim Chatter

Executive director – France  
karim.chatter@fr.ey.com  
Ernst & Young et Associés



## Pauline Blanchard

Senior Manager – France  
pauline.blanchard@fr.ey.com  
Ernst & Young et Associés



## Zeynep Deldag

Partner – Netherlands  
zeynep.deldag@nl.ey.com  
Ernst & Young Nederland LLP



## Peter Telders

Partner – Brussels  
peter.telders@be.ey.com  
E&Y Bedrijfsrevisoren BCVBA



## Martyn van Wensveen

Partner – Hong Kong  
martyn.van.wensveen@hk.ey.com  
Ernst & Young Advisory Services Limited



## Jonathan Zhao

Partner – Hong Kong  
jonathan.zhao@hk.ey.com  
Ernst & Young Transaction  
Services Limited



## Doru Pantea

Partner – Hong Kong  
doru.pantea@ca.ey.com  
Ernst & Young Hong Kong



## Julie Dempers

Senior Manager – South Africa  
julie.dempers@za.ey.com  
Ernst & Young Inc.



## Janice Deganis

Partner – Canada  
janice.c.deganis@ca.ey.com  
Ernst & Young LLP



## Evan Bogardus

Partner – USA  
evan.bogardus@ey.com  
Ernst & Young LLP



## Dana D'Amelio

Partner – USA  
dana.damelio@ey.com  
Ernst & Young LLP





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