

# An insurer's journey

On 18 May 2017, the International Accounting Standards Board (IASB) issued IFRS 17: Insurance Contracts, a long awaited standard for insurers. **Mr Raj Juta** from **Deloitte** gives an in-depth view of this new insurance contracts standard which will be applicable for annual reporting periods beginning on or after 1 January 2021



The International Accounting Standards Committee, IASB's predecessor, had started the International Financial Reporting Standard (IFRS) project in April 1997 and Phase I was completed by the IASB when IFRS 4 was issued in March 2004.

However, IFRS 4 was deemed to be an interim solution only as it allowed insurers to use wide variety of accounting practices, as IASB continues to work on a comprehensive standard. Investors and analysts find it difficult to understand and compare insurers' financial position, performance and risk exposures due to the differences in accounting practices across jurisdictions and products. Phase II of this project which resulted in IFRS 17 replacing IFRS 4, address these concerns.

## Objective

The main objective of this new standard was to make sure that the issuer provides relevant information that faithfully represents rights and obligations from insurance contracts it issues.

In order to achieve this and eliminate inconsistencies and weaknesses in existing accounting practices, the IASB developed a single principle-based framework to account for all types of insurance including reinsurance contracts that the insurer has entered into. IFRS 17

also enhances comparability between insurers by specifying presentation and disclosure requirements.

## Impact

The standard will impact what constitutes revenue and profit in an insurance company and introduces the important concepts of contractual service margin and risk adjustment. The insurer's target operating model will change including key processes and systems.

The impact on Asia-based insurance organisations are significant given that, unlike European insurers, Asian insurers would not be able to leverage their IFRS 17 solution from the technical alignment between IFRS and the new Solvency II regime that went live on 1 January 2016 across the European Union.

Asian insurers will therefore have a different starting point in the absence of similar requirements by their respective regulators and the need to factor into the cost the ability to report between local statutory reporting and the more complex IFRS 17 requirements.

Six group of stakeholders will be affected and insurers need to manage these relationships effectively to ensure the overall market impact is beneficial (See Figure 1).