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IFRS Alert

IASB issues IFRS 17 Insurance Contracts

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Executive Summary

The IASB has issued IFRS 17 'Insurance Contracts', replacing the similarly titled IFRS 4 which was issued some time ago as an interim Standard.

IFRS 17 will help people to better understand insurers' financial statements by requiring insurance contracts to be accounted for in a consistent manner. Implementation costs are likely to be substantial however and staff training, management education and communication with investors will be crucial for achieving the Standard's objectives.

Background

After twenty years of development the IASB has published IFRS 17 'Insurance Contracts'. The new Standard replaces IFRS 4 which was published in 2004.

IFRS 4 was designed to be an interim Standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that companies continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar companies.

The new approach

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

The Standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows
- discount rates that reflect the characteristics of the contracts' cash flows
- explicit adjustment for non-financial risk.

Watch this space

The Grant Thornton International IFRS Team will be issuing a detailed publication entitled 'Get Ready for IFRS 17 – a fundamental change to the reporting for insurance contracts' in the near future.

Day one profits should be deferred as a contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk.

Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts.

Increased disclosure requirements apply.

Transition

IFRS 17 has an effective date of 1 January 2021 but may be applied earlier (subject to considerations imposed by local legislation).

As noted in IFRS Alert 2016-07, the IASB made narrow scope amendments to IFRS 4 'Insurance Contracts' in September of last year in order to provide temporary accounting solutions for the practical challenges of implementing IFRS 9 'Financial Instruments' before IFRS 17.

Point of view

IFRS 17 rewrites the rulebook for insurance reporting and will transform data, people, technology solutions and investor relations. Implementation costs are likely to be substantial but the Standard will bring benefits in terms of improved transparency, consistency and comparability across the insurance markets.

Over the next three years, we expect the key focus areas for entities to be:

- understanding the financial and operational impacts on transition and for new business
- implementing efficient data collection and storage solutions, and streamlining production processes and IT systems
- developing and explaining new performance measurement and business steering metrics.