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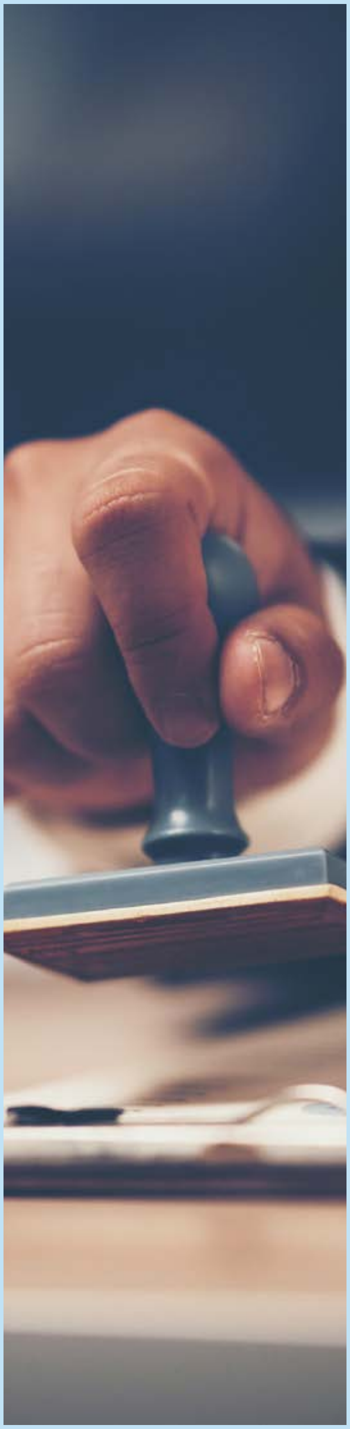

THE IMPACT OF IFRS 17 FOR THE INSURANCE INDUSTRY

Abstract

The International Financial Reporting Standard(s), IFRS, is a set of accounting rules issued by the IASB (International Accounting Standards Board), a London-based Accounting Standards Board that addresses aspects of financial reporting such as record keeping and account reporting.

IFRS, which was started in the European Union for public companies and as a means to make intra-EU businesses easier soon became the common accounting language of other countries like India, Canada, Chile, Russia, South Korea and South Africa. With a total of 160 countries adopting it, it is globally the most used set of standards today.

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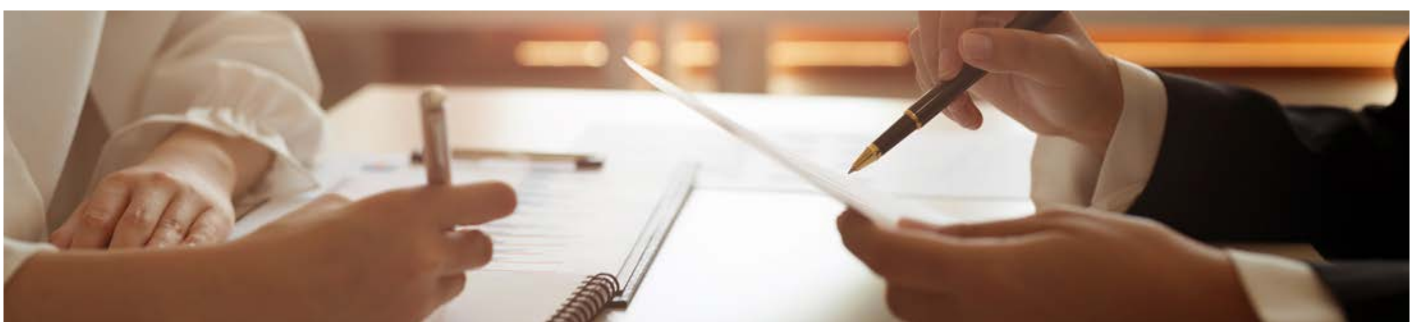
Welcoming IFRS 17

IFRS 17, the newest IFRS Standard on accounting for insurance contracts was issued in May 2017 as a replacement for IFRS 4. The much-awaited standard will be effective from 1 January 2023, after deadlines were moved multiple times.

But why was a new standard required? International accounting regulators noticed that there were glaring inconsistencies in the accountancy of insurance contracts across jurisdictions. So, they felt the need to create a unified accounting framework. The project began in 1997 and out came IFRS 4, in 2004. This, however, was only an interim measure meant to prevent undesirable insurance accounting practices. IFRS 4 still made comparison of results among insurance companies difficult for investors and analysts, an area that IFRS 17 addresses.

Here's is how the two IFRS versions compare

	IFRS 4	IFRS 17
Accounting policies	One per insurance contract	One for all insurance contracts
Inter-insurance-company comparability	Lack of comparability	Sufficient comparability
Insurance vs. non-insurance company comparability	Lack of comparability	Comparison possible
Estimates	Not updated	Updated for each reporting period
Key profit drivers	Difficult to see	Transparent (investment vs. underwriting)
Discount rate	Investment-based	Based on a contract's cash flows



The critical role of technology

Implementation of IFRS 17 is a golden opportunity to improve processes using digital solutions. Technology implementation improves the agility in accounting processes as well.* Here are some solutions that insurance companies can look at:

- Insurance calculation engines, which store data relevant to insurers' policies and automate IFRS 17 computations
- Solutions to manage and centralise data, which makes for easy auditing
- Cloud-based solutions, which enable insurers to source user data from various platforms and automate reporting

Implementation of IFRS 17 is no mean feat. It involves a lot of hard work and money investment. A survey by Deloitte says that one-third of responding insurers expect to spend over £ 45 million for the implementation, and half of them are convinced that the benefits outweigh the costs. So, what are the potential benefits?

Advantages of IFRS 17

- **Greater transparency:** This happens to be a key aim of IFRS 17. It proposes to correct the current transparency issues plaguing insurance accounting by using relevant information for risk assessment and performance metrics. For example, many companies used old interest rates which shroud the company's true value, or their financial reports do not reflect the risks that are economically mismatched with assets.
- **Higher reporting consistency:** Currently, even similar insurance contracts in different companies in the same jurisdiction are incomparable. With IFRS 17, all companies apply the same accounting framework across insurance contracts, thereby making reporting consistent.
- **Increased inter-department collaboration:** Managing stakeholders' interests and insurers' risks is a fine balancing act best done collaboratively by actuaries and accountants. But this collaboration is totally lacking in many organisations. IFRS 17 requires them to team-up, which results in better management of the company.
- **Better business management:** It is no secret that better governance leads to lower operational risks and reduced incurred costs. This is what IFRS 17 intends to do for actuarial systems. By raising governance standards, it helps companies achieve compliance, cost reduction, error minimisation and easier access to risk insight, all leading to better administration of the business.

Conclusion

With increased globalisation, there arises a need for a unified language that makes understanding one another easy. IFRS 17 happens to be that unified language for accounting.

The impact of IFRS 17 is not going to be limited to F&A alone; it will pervade other functions such as actuarial, reinsurance, underwriting, reporting and IT. However, for all the time and effort that rolling out IFRS 17 has consumed, it will be worth the change, since it will most certainly improve financial stability of insurance carriers and may also lead to a few mergers and acquisitions (M&A) within the insurance industry.

With operations of many departments of the insurance company streamlined, there is greater efficiency, integrity, consistency, and transparency, thereby leading to long-term stability, a benefit which will serve everyone including investors, policyholders and stakeholders for years to come

*For organizations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organizational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organizations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organizations that are innovating collaboratively for the future.

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