



IFRS 17:

The New Financial Reporting Regime for Insurance Companies


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WHY CHANGES TO CURRENT ACCOUNTING STANDARDS FOR INSURANCE CONTRACTS

Today, International Financial Reporting Standards (IFRS) for insurance contracts have already been adopted by all insurance companies operating in the region. Insurance companies currently use a wide range of accounting practices largely based on the accounting requirements of each jurisdiction. IFRS 4, issued in 2004, is the base standard for insurance accounting model used in each jurisdiction with different accounting models having been evolved according to the types of insurance products sold and circumstances of each jurisdiction. This has led to inconsistency and a significant diversity in insurance contracts accounting practices along with very limited transparency provided in the existing financial statements.



One of the main issues in the existing accounting framework is a lack of comparability. Comparability among insurance companies, insurance contracts and industries is important to fairly reflect the value of insurance contracts along with consistent outputs in the financial reporting framework across jurisdictions. For example, some companies recognize all premiums received as revenue while it may contain the savings components of policyholders' value to be returned after providing services to the insurance policy. Thus all premiums received do not truly reflect the full revenue recognized by insurance companies as income. It therefore becomes very difficult to compare the insurance industry's revenues with revenues for other industries where they report their revenues based on actual service provided. A lack of transparent and relevant information is a major concern in the existing financial reporting standards.

From the investors and analysts perspectives, IFRS 4 has caused problems in comparing and understanding insurance contracts across jurisdictions. Information in the financial statements is limited which lead to ambiguity in reporting, narrow investments and ultimately defective decision-making.



WHAT IS IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. One of the objectives of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and future cash flows.

IFRS 17 will change the existing mechanism of insurers' accounting practices for reporting income and liabilities from insurance contracts for insurance and reinsurance companies, creating a new financial semantic to inform investors about performance of this complex global industry.



HOW DOES THE NEW ACCOUNTING REGIME SOLVE THE ISSUES

The new accounting regime for insurance contracts, IFRS 17, will require all companies that issue insurance contracts to account for all insurance contracts in a way that provides:

- Greater insight into sources of profit within the business (e.g. underwriting activity, expense management, investment activity)
- Increase transparency about current and future profitability and will add comparability through a consistent framework for all insurance contracts which would also reflect up-to-date information about cash flows arising from insurance contracts
- Value of current estimates at each reporting date of the obligation created by the insurance contracts
- The extent, nature, timing and risk associated with insurance contract cash flows
- New disclosure: lots of additional information related to the insurance contracts

IFRS 17 will provide users of financial statements with more relevant information about the insurance company's financial position and performance along with better transparency. IFRS 17 will eliminate inconsistencies and weakness in existing practices and provide comparability across contracts, entities, jurisdictions and capital markets.

WHY ADOPT IT

IFRS has already been adopted in Middle Eastern countries (including UAE, Saudi Arabia, Qatar, Bahrain, Kuwait, Oman and others), Asian countries (including Pakistan, India, Sri Lanka, Thailand, Vietnam, Singapore, Hong Kong and others) and across other regions. This new financial semantic, IFRS 17, delivers consistency in the financial reporting for a sector that has never had it. IFRS 17 will introduce a significant degree of transparency that aims to open what many considered an accounting and actuarial black box.

IFRS 17 also outlines a comprehensive framework that will require insurers to provide information relevant to users of financial statements for economic decision making. All countries that follow existing IFRS will be required to adopt IFRS 17. Most expect the exercise to be wide-ranging, complex and costly. Therefore early planning is recommended for both life and general insurance companies, with more detailed requirements for life insurers.

HOW IFRS 17 IMPACTS YOU

If you happen to work for an insurer and your nature of work relates to preparing, reporting, analysing, reviewing, estimating or presenting the assets, liabilities or equities in the financial statements, the IFRS 17 financial semantic will impact you. The existing IFRS 4 will no longer remain effective from 2021 and therefore IFRS 17 will have to be followed.

The implementation of IFRS 17 will have a major impact across the entire financial management framework, requiring changes to be made to key areas of strategic financial management and operations in the way the results will be delivered.

IFRS 17 will also have a significant impact on data, systems and processes used to prepare the financial reporting framework.

IFRS 17 provides insurers with general principles and flexibility on its implementation. Therefore, the choices that the insurer makes will impact how profits are released over the life of a contract.

The impact to insurance organizations, whether subsidiaries/branches of international insurers or domestic insurers, are significant given that many countries have adopted IFRS and therefore would need to comply with the new reporting requirements of IFRS 17.

ROLE OF ACTUARIES AND AUDITORS

Although IFRS 17 requires involvement from various functions of insurance companies such as Finance, IT, Internal Auditor and others, the role of Actuaries will be significantly increased. IFRS 17 requires significant actuarial involvement and both External Auditors and Actuaries need to work together for the successful adoption of IFRS 17.



WHO SHOULD ATTEND

CEOs, CFOs, Audit Committee members, internal and external auditors, accounting and finance professionals, actuaries, regulators and all discerning individuals who wish to understand how the new reporting standard will impact them.

HOW WE CAN HELP

IFRS 17 outlines the general principles of insurance contract reporting. It however, allows flexibility with regards to its transition and implementation with each phase involving significant judgment that would need to be made. Our firm has the knowledge as well as the experience to help companies not only apply best practices but also avoid the eventual problems that they may face when adopting IFRS 17.

IFRS 17 will require the company's IT, finance, accountants and actuaries to work together to modify and/or restructure its existing systems. Our firm can help provide the technical support necessary to make the transition as smooth as possible.

About SHMA Consulting

SHMA Consulting, is a company registered in the Dubai Multi Commodities Centre (DMCC) United Arab Emirates, provides actuarial and insurance advisory services to insurance companies, takaful operators and other organizations operating retirement and pension funds. We have a team of over 45 actuarial professionals including 10 qualified actuaries.

Our Insurance and Takaful practice provides services to companies located in Pakistan, United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait and other countries. Our diverse teams work closely with our clients to identify and address the challenges faced by our clients. Our expertise encompass actuarial valuations in accordance with both local standards and International Financial Reporting Standards (IFRS), statutory certifications and reporting, product development and pricing, enterprise risk management and capital modeling, reinsurance and investment advisory, business planning and capital appraisals.

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