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The **International Accounting Standards Board (IASB)** issued **IFRS 17 Insurance Contracts** in May 2017. IFRS 17 sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from **1 January 2021**. IFRS 17 **replaces** an interim Standard—**IFRS 4 Insurance Contracts** that was issued in March 2004.

IFRS 17 is the first comprehensive and truly international IFRS Standard establishing the accounting for insurance contracts.

With existing accounting for insurance contracts, companies are not required to account for insurance contracts in one specific way. Instead, insurance contracts are accounted for differently across jurisdictions and may even be accounted for differently within the same company.

The **aim** of the insurance contracts project was to provide a **single principle-based standard** to account for **all types of insurance contracts**, including reinsurance contracts that an insurer holds. A single principle-based standard would enhance comparability of financial reporting among entities, jurisdictions and capital markets.

IFRS 17: (a) **provides updated information** about the obligations, risks and performance of insurance contracts; (b) **increases transparency in financial information** reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry; and (c) **introduces consistent accounting** for all insurance contracts based on a current measurement model.

MAJOR CHANGES AND IMPACTS IN THE FINANCIAL STATEMENTS:

Insurance Obligations and Risks

IFRS 17 requires a company that issues insurance contracts to report them on the **balance sheet** as the **total** of:

(a) the **fulfillment cash flows**—the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, **including an adjustment** for the timing and risk of those cash flows; and
(b) the **contractual service margin**—the expected profit for providing future insurance coverage (ie unearned profit).

Insurance Revenue

IFRS 17 requires a company to report as insurance revenue the **amount charged for insurance coverage** when it is **earned**, rather than when the company receives premiums. Insurance revenue should **exclude** the deposits that represent the investment of the policyholder, rather than an amount charged for services. IFRS 17 requires that companies **present deposit repayments as settlements of liabilities** rather than as insurance expenses.

Insurance Performance

IFRS 17 requires a company to provide information that distinguishes **two ways** insurers earn profits from insurance contracts:

(a) the **insurance service result**, which depicts the profit earned from providing insurance coverage; and
(b) the **financial result**, which captures:
 (i) **investment income** from managing financial assets; and
 (ii) **insurance finance expenses** from insurance obligations—the effects of discount rates and other financial variables on the value of insurance obligations.

Changes in the estimates of the expected premiums and payments that relate to future insurance coverage will **adjust the expected profit**—ie the **contractual service margin** for a group of insurance contracts will be **increased or decreased** by the effect of those changes. The effect of such changes in estimates will then be **recognised in profit or loss** over the remaining coverage period.

If the **amounts** that the **insurer expects to pay** out for claims, benefits and expenses **exceed the amounts** that the **insurer expects to collect** from premiums, either at the inception of the contracts or subsequently, the contracts are loss making and **the difference will be recognised immediately in profit or loss.**

In addition, IFRS 17 requires a company to **provide an explanation** of when it **expects** to **recognise in profit or loss** the **contractual service margin that remains on the balance sheet** at the end of the reporting period.

Consistent Standard

All insurance companies will use **current discount rates** to measure their insurance contracts. Those discount rates will reflect the characteristics of the cash flows arising from the insurance contract liabilities.

Effectivity

IFRS 17 is effective from **1 January 2021**. A company can **choose to apply IFRS 17 before that date** but **only if** it **also applies IFRS 9** *Financial Instruments* **and IFRS 15** *Revenue from Contracts with Customers*. A company is **not required** to **account** for its insurance contracts **as if IFRS 17 had always been applied if** this is **impracticable**. Instead, a company can use either a **modified retrospective approach or a fair value transition approach.**

What to do?

All affected Companies have to study and assess the impact of this new standard as early as now! Companies have to stay up to date with the latest developments of the standard. They may also consider hiring accounting experts to help them in the transition process and analyses of their contracts.

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