IFRS 17 Insurance Contract

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IFRS 17, which supersedes the existing IFRS 4 Accounting Standard for insurance contracts, 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 statement 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 & reinsurance companies, creating a new financial semantic to inform investors about the performance of this complex global industry.

Why adopt it?

IFRS accounting standards have already been adopted in Middle Eastern countries, Asian countries, and across various 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 consider 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/reinsurance companies, with more detailed requirements for life insurers.

How does IFRS 17 impact you?

If you happen to work for an insurer and your nature of work relates to reporting, preparing, analyzing, reviewing, estimating, or presenting the assets, liabilities, or equities in the financial statements, IFRS 17 financial semantics will impact you. IFRS 17 will become effective starting 1 January 2021.

IFRS 17 provides insurers with general principles and flexibility in the implementation. Therefore, the choices that an insurer makes will impact how the profits are released over the life of a contract. The impact on insurance organizations, whether subsidiaries/branches of international insurers or domestic insurers, is significant given that many countries have adopted IFRS accounting standards and therefore would need to comply with the new requirements of IFRS 17.

How BDO can help you?

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 expertise to help companies not only apply best practices but also avoid the eventual problems that they may face when adopting IFRS 17. 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.

Suggested IFRS 17 implementation phases

BDO provides the following support to implement IFRS 17 for insurers:

- Carry out gap analysis
- Develop and deliver training for your staff
- Perform Impact assessment
- Assist with the system solutions and mapping of requirements
- Assistance with implementing new policies, processes and systems
- The Insurance Companies has to submit the Gap analysis (Phase 1) and the Financial impact assessment (Phase 2) reports to the SECP. However, any further guidance from SECP regarding timelines for completion of subsequent phases 3 and 4 is still awaited, as per circular no. ID/MDPRD/IFRS-17/2022/2392 dated April 4, 2022.

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